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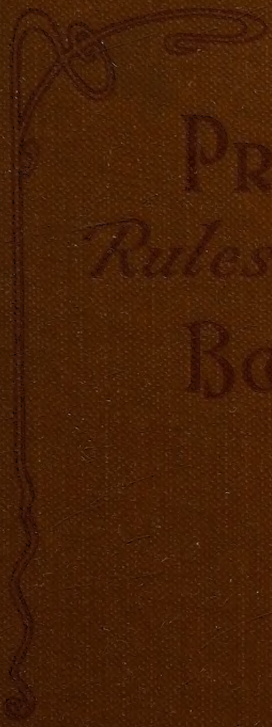

PRINCIPLES
Rules and Definitions
FOR
BOOKKEEPING

—GOODYEAR

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Alice Benson
Room 20

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PRINCIPLES
RULES AND DEFINITIONS
FOR BOOKKEEPING

BY

LLOYD E. GOODYEAR

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PREFACE

This little book was prepared to place at the disposal of students of bookkeeping, and business people generally, the principles and rules needed to make intelligible the bookkeeping work.

A set of books in any business should be planned for a purpose. Knowledge of the end sought is essential to a single-minded effort to attain that end. The business man views a set of books as so much machinery for the collection and classifying of the vital facts of his business, for his guidance. The accountant plans the books so as to meet the business man's requirements. It is hoped that reference to the following pages, during the student's progress through the bookkeeping work, may enable him to take the attitude of the accountant, looking beyond the necessary details of entering, posting, and filing, to the general plan and purpose.

From the accounting standpoint, all sets of books have a likeness in certain particulars. In other particulars there is dissimilarity. We shall begin by referring to the matters which all ordinary bookkeeping systems have in common.

The first record which is similar in every business is the statement of assets and liabilities showing the items comprising the net worth. Such a statement is necessary before opening a set of books, in order that the standing or financial strength may be made a matter of record.

After the business operations are under way, at regular intervals of time similar statements are made showing the changed values of the items of assets and liabilities, and the resultant changes in the net worth. These financial statements thus afford a picture of the history and progress of the business through a period of years, with a definite analysis of the condition of the business at the close of any given accounting period.

After the first statement is made, the items composing the statement are transferred to the ledger, each item

under its proper heading, or account title, and each account showing the amount. During the accounting period, or interval between statements, the additions to or deductions from the several accounts of assets and liabilities are entered in the ledger, so that the accounts show, at the end of the period, the amounts to be transferred to the next statement.

The accounts that make up the net worth of the business are called Real accounts. The rules observed for keeping them properly are the same in any business, and may be learned once for all.

In addition to the statement of financial condition referred to ,a statement of profit and loss is made at the end of the accounting period. The latter statement does not show any existing property or debts, but merely classifies the incomes and loss expenditures. The difference between the total incomes and loss expenditures is either the net profit or the net loss of an accounting period. The net profit or loss agrees in amount with the increase or decrease in net worth shown by the statement of assets and liabilities made at beginning and end of the accounting period.

The varieties of incomes and loss expenditures shown in the profit and loss statement are given ledger accounts where the amounts are entered as received or expended, under the proper headings, until, at the end of the accounting period, the totals are transferred to the profit and loss statement. The accounts making up this statement are called Nominal accounts and represent no value except as summaries of results.

Every set of double entry books should be so constructed as to exhibit the elements making up the net worth in the real accounts and the elements making up the net profit or loss in the nominal accounts. The foregoing are essentials in opening and operating any double entry set of books, and if clearly in mind, comprise a sufficient basis for debit and credit.

The principles governing the financial statements and the ledger accounts are discussed in Part One of the text.

After the ledger plan, which follows much the same order in any business, is clearly in mind, the principal, and by far the most extensive study in bookkeeping is the methods used to record transactions and operations preparatory to transferring their amounts to the accounts. Different businesses require books in great variety of form to accommodate suitable and economical original entries. You may have the ledgers planned on the same outline for a grocery store, a printing establishment, a hotel, a coal yard, and a farm, but the details of these separate businesses are so diverse that the books of original entry will be very dissimilar in form. This is not because the statements of results differ in form, but because each kind of business requires first records peculiar to itself. Each type of business must be studied individually to determine the number and form of books of original entry suitable for its records. General suggestions about books of original entry are given in Part Two of the text.

A successful bookkeeper should be able to read the ledger after he has posted it, and to keep in touch with the tendencies of the business as reflected in the accounts. Suggestions about examining books are given in the final chapter on Auditing.

The author of this volume has uesd due diligence in gathering here accounting principles and bookkeeping rules in convenient form for prompt reference. The Index-Commentary, to be found on the last pages, will serve as a reference to all topics discussed. Our purpose is to present these matters briefly, yet with enough completeness for practical purposes.

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PART ONE—PRINCIPLES

CHAPTER I

INTRODUCTION

1. Bookkeeping is defined as the art of recording business transactions. A definition is a summary, more or less complete, of many details required to describe the thing defined. It is the purpose of this chapter to enlarge in a general way on some of the functions of bookkeeping as an aid to business.

2. Bookkeeping in Business. Business is the word generally used to indicate any kind of useful occupation or employment. It refers especially to activities engaged in for the purpose of earning a livelihood.

The necessities and refinements essential to the welfare of any person are produced by many persons in all parts of the world, and offered in exchange for money. One's ability to secure the useful things included under the general term "a living" depends on the amount of money he has to pay for them; so that business, from the standpoint of the person engaged in it, may be considered an effort to acquire money. This statement should not be construed in an unfavorable sense. Business that does not serve a useful purpose, or that does not produce full value for the money received, is objectionable even though gainful financially.

The efforts of men to improve their condition by increasing their earnings are applied to different kinds of business enterprises; among them, extraction of raw materials, transportation, manufacturing, trading, and banking are leading businesses. All of these enterprises are subject to financial laws. They require an investment of money or its equivalent to start them going, and they are maintained by the earnings derived from their operations.

The same laws govern the beginning and continuance of societies, clubs, institutes, colleges and other public institutions. They also are maintained by their money income.

It is the money, or financial, side of business that is considered in bookkeeping. The object sought in bookkeeping is a record of all things and activities of business that can be valued in money. Other considerations are beyond the province of bookkeeping. Every transaction and operation of business is measured at the bookkeeper's desk, and assigned its proper place as an element of financial progress. By this means those responsible for business success are informed step by step regarding the tendencies of their activities.

This knowledge is valuable to the individual who would leave the ranks of the great majority of men who are unable, through ignorance of their financial position, to achieve financial independence. That a firm or company should attempt a grasp of its complex business relations without bookkeeping is practically out of the question. And it is not too much to expect that the knowledge and use of bookkeeping by the average citizen will do much to strengthen an intelligent attitude toward questions surrounding the relative rewards of capital and labor, that will have a favorable effect on the present inequitable distribution of wealth.

3. **How Money Is Earned.** The simplest way to secure income is to work for wages or salary. This requires no investment risks, and the amount one receives is settled by an agreement to sell one's services for a price. Increased income is secured by improving the quality of services. However, if one uses his entire income in living expenses, he will act without proper foresight, for any condition throwing him out of employment would diminish his ability to live. So it is generally conceded that a part of one's earnings should be saved to make up for diminished earnings later on.

Money or property saved constitutes capital; that is, savings may be used in such a way as to produce addi-

tional income. If the savings are placed in a savings bank, the depositor will receive income at the rate of two to four per cent interest annually in addition to his wages or salary. He can invest his savings in bonds or stocks, receiving an income of interest or dividends. If he invests his savings in land or buildings, he may receive an income from rent or from the increase in the value of the property. He may invest his savings in trade and give to the business his time, and receive income from the profits which his labor and capital jointly earn. Nearly everyone possesses money or property that will produce income if wisely used. But some uses of capital will result in losses; hence it is desirable to keep informed as to the relative income from different kinds of investments. One way to do this is simply to memorize all the facts, and some business men do this with a considerable degree of success. Yet, it is unquestionably more economical of time and mental energy for a person to keep a record of his business matters in well arranged books, even though his financial interests are small. He is then sure of the facts without waste of time or thought. The successful business man does not permit his thought, time, or capital to be tied up in any unnecessary way, but uses all these resources as far as practicable in production.

4. Bookkeeping a Financial Record. When speaking of bookkeeping as the "art of recording business transactions," it is important to remember that the purpose of the record is to afford financial information. The term "finance" implies the handling of money and is closely associated with the idea of receipt and expenditure of cash. Bookkeeping fulfills its purpose only when it states clearly the financial weight, or the money value of business transactions as they affect some one person or firm, or other association in whose interest the books are kept. The financial weight is expressed in statements, accounts, and reports which summarize several items of like financial effect in one combined financial effect.

There are two principal manual phases of bookkeeping: (1) the preservation of a true business history of some certain concern; (2) the classification of the items recorded in such a way as to show the receipts and disbursements of cash, and the cost and yield of the other component parts of the given concern.

A bookkeeper, as such, should know: (1) how to record all transactions that occur in a given business; (2) how to post all entries to the proper accounts; (3) how to show the condition of any account, by means of a statement; (4) how to verify his work by a trial balance; (5) how to preserve vouchers relating to his records.

5. **Accounting** is the governing element in bookkeeping. It is employed in determining the forms, arrangement and terms used in financial statements, accounts, and reports; and interprets their meaning. The accounting profession, as a result of long study and observation of business conditions, has defined the fundamental elements of financial importance found in business concerns generally, and in so doing has developed a standard system of accounts.

The science of accounting is essentially very simple and easily understood. But it is a branch of learning that has been greatly neglected, although the time spent in its practical mastery would tend to greater average prosperity among people in business. Accounting is the one science that measures the utility of all other sciences.

There has been a strong tendency to disassociate accounting and bookkeeping as though they have two different functions. But it is impossible to tell where bookkeeping ends and accounting begins. In large establishments, the "bookkeepers" enter transactions, post and do other mechanical work; the "accountants" devise the bookkeeping plan, prepare the general statements, and audit (examine) the books. But the work of both may be classed under the general designation, bookkeeping. The person who keeps his own books must be

familiar with the principles of accounting in order to keep books effectively.

6. Transactions. A business transaction is some single business performance, as, a sale, a purchase, the collection of a sum due from another, the payment of a debt due to another, the discounting of a note, etc.

But dealings with others, such as the above, are not the only business occurrences that affect the business financially. The property of a business may be of such a nature that it will depreciate in value more or less rapidly, and thus diminish the entire value. Fire losses, theft or other things of an unexpected nature may happen to the advantage or disadvantage of the concern. A record of all such matters should be kept and the effect of them recorded. The term "transactions" as found in the definition of bookkeeping, must be used in a broad sense, covering every operation, occurrence or circumstance that has any bearing on the capital or income of the business undertaking.

7. How Transactions Are Recorded. The transactions of a business concern are recorded, as a rule, in two ways:

(a) The first record, or original entry, recites in the briefest manner possible, all of the essential facts about the transaction. This explanatory matter should be abbreviated as much as possible, but should contain all the details necessary to inform one unacquainted with the circumstances as to what actually occurred. One desirable feature in a business record may be noted here: The record should be written as something done by the person for whom the books are kept. In the following examples the words enclosed are understood, but do not appear. (I, the proprietor,) "Sold John Smith, for cash, 5 lb. sugar @ .08 = $.40;" not, "John Smith bought of me," etc. (I, the proprietor,) "Received from W. Mills," ect.; not "W. Mills paid me," etc. Every transaction is an act of the proprietor, so far as the books are concerned, and is recorded so as to show results to the pro-

prietor, regardless of the acts of or results to others. The first record is made so as to satisfy any future inquiry as to what the proprietor actually did, and should be complete to that extent.

(b) The second record is made to show the financial effects of the transactions on the concern as a source of income to the proprietor. The concern as a whole is made up of elements all of which are classified as to their financial weight in summing up the capital and income. Each element is given a name which is used as the heading of an account.

An account consists of an entry or group of entries made to show the financial weight of transactions having bearing on the element named or indicated by the account heading. This weight is shown by either debit entries made in the left of two money columns, or credit entries made in the right.

A debit entry shows a value passed into the element named or indicated by the heading.

A credit entry shows a value passed out of the element named or indicated by the heading.

When the proprietor performs a business transaction, he causes a value to pass into one or more elements out of one or more other elements of the concern; hence every transaction requires debit entry in one or more accounts and credit entry in another or others, the debits and credits being in equal amounts.

The net amount of any account, found by subtracting the lesser from the greater side, is called the balance. The balance of the account shows the weight of the named element in increasing or decreasing the capital or the income.

The necessity for recording transactions in two ways —consecutive record as to transactions and classified record as to bearing on the elements involved—gives rise to two general classes of books found in bookkeeping, viz., journals and ledgers.

8. **The Journal** is an original record of daily transactions and events, written in the order of their occurrence. In this book all transactions of a given day are to be found in one portion, regardless of the accounts affected by the transactions.

Formerly, the matter recorded in the book now known as the journal was divided into (1) the continuous account of the particulars of the transactions, written in a "day book," (2) the indication of the accounts to be debited or credited as a result of the transactions written in a "journal." This division of record is now little used in the United States, since it is very easy to indicate accounts to which posting is to be made along with the narrative of transactions; so that the book containing both the full explanation and an indication of the accounts affected is understood when we speak of a journal. The plain journal contains two money columns, one for debit entries, the other for credit entries.

The plain journal, referred to in the preceding paragraph, is modified in many ways, in practical bookkeeping, for labor saving and convenience. The principal purpose of these modifications is to adapt the form used to the nature of the business, so as to reduce the writing of original entries to the minimum and partially classify the results so as to reduce the labor of posting to the accounts. These modifications, or special journals as they are often called, may be used to contain given kinds of routine entries. Among them are the "cash book," which contains a journal record of cash receipts and disbursements; the "sales book," which contains a journal record of sales, etc. All books containing a special class of original entries from which posting is done, may be classed as special journals.

Another modification of the original journal is the many-column journal, in which special columns are used for amounts that otherwise would be posted one by one to the same account in the ledger, but by means of a special column, the items pertaining to one account can

be added and the total posted instead. Many-column journals are made containing from one to forty or more special columns.

The rules governing the two modifications of the journal referred to—i. e., the special journal and the many-column journal—comprise a large part of the study of practical bookkeeping. After the general accounting basis, common to all bookkeeping systems, is fairly in mind, the choice of books of first entry, and the special forms of these books required under different business conditions, are the principal considerations. The form of the books of first entry, or journals, is governed by the nature of the business transactions, and would differ very much in banking, trading, manufacturing, farming, contracting, etc.

9. **The Ledger** contains the accounts. Entries are posted to the accounts from the journals. Unlike the journal forms which, for convenience, differ very much in different businesses, the form and arrangement of the ledger accounts are comparatively uniform. The accounts are divided into two classes: (1) those that explain the condition of the capital of the concern—real accounts, (2) those that explain the income—nominal accounts.

All varieties of business are so similar in their financial organization that one uniform set of real account titles may be looked for in the ledgers of all concerns. By this is not meant that any one concern will have need of all the regularly named and defined real accounts, but that so far as its organization extends, standard account titles may be selected to represent all of its real component parts.

The nominal account titles, however, though quite extensively standardized, are subject to great variation, for they represent the results of ever-expanding human operations and sometimes number as many as several hundred in the same concern. They are subject largely to the special needs of a given business.

10. Financial Statements are exhibits containing information bearing on the financial condition and progress of the business as a whole.

There are two general phases covered in financial statements: (1) the "statement of assets and liabilities," which shows in detail the property and indebtedness of the business and the resultant net worth or insolvency; (2) the "statement of profit and loss," which shows the causes and amounts of its incomes and expenses for a given period of time, and the resultant net profit or loss.

The statement of assets and liabilities is a summary of the amounts itemized in the real accounts; the profit and loss statement, of the amounts itemized in the nominal accounts.

Recapitulation—1 to 10. The main processes of bookkeeping are determined by the principles of accounting, and consist of: (1) the making of true original entries in the journal or in the books taking the place of the journal; (2) the posting of the original entries to the ledger, where they appear classified in account form; (3) the preparation of the statement of a business which exhibits the condition of its finances and the results of its operations, as shown by the records, in compact form for examination and comparison.

CHAPTER II

STATEMENT OF ASSETS AND LIABILITIES

11. The general term, financial statements, refers to classified lists and summaries of the value of things owned by a business concern, of its debts, of its profits or its losses, or of any conditions that affect it in a money way. Two kinds of statements are commonly used to summarize the results of business enterprises: the statement of assets and liabilities discussed in this chapter, and the statement of profit and loss discussed in Chapter VII. The former summarizes the value of the property owned by the concern, and the latter, the income.

12. A statement of assets and liabilities is designed to show what the person or firm owns (assets), what he owes (liabilities), and the difference which is called the "net worth" if the total owned is greater than the total owed, and the "net insolvency" if the total owed is greater than the total owned.

This statement shows the financial condition of the concern; that is, how much money or property is at the disposal of the owner, what part of the total may be expended on short notice, what part is permanently invested, what part is nonproductive, what part, if any, is intangible. It also shows what part must be held in readiness to meet existing obligations. The owner is limited in his operations by the condition of the property.

The condition as shown on a statement is for one date only, for a business transaction always causes one or more of the things in the business to increase or decrease in value and changes the statement to that extent. It is customary to prepare a statement of assets and liabilities at the beginning of the business history, and once annually thereafter. It is often made on January 1, each year, or if the nature of the business is such that the operations of the business year close on some

other date, the most convenient date is used; as May 1, July 1, etc. The statement is made monthly, when the nature of the business is such as to make frequent comparisons desirable. Such a statement is made when required by bankers or creditors who desire to satisfy themselves as to the ability of the concern to pay its debts. The amount of a concern's resources is an important matter in determining its credit, or capacity to borrow money. The statement of assets and liabilities is often called a "statement of condition," a "statement of position," a "statement of capital," a "balance sheet," or simply a "financial statement."

It is considered in three parts in the following discussion: (1) the assets, (2) the liabilities, and (3) the net worth.

13. **The Assets** may include cash in hand, or amounts owed to the concern by others, property such as merchandise, live stock, machinery, land, buildings, etc., and any other things of cash value. The aim is to include in the statement as assets everything that could be sold if the firm were to discontinue business and wind up its affairs, and to place it in the statement at a value which it would reasonably be supposed to bring if sold.

It is of interest to the owner or creditor of the person or firm making the statement to know not only the total value of the assets, but also the part which can be used, on short notice, for purchases or payment of debts. Thus, cash in hand is immediately available, accounts and notes are available within a certain period. Goods kept in stock for sale will not be turned into cash ordinarily as soon as accounts and notes, while property such as furniture, machinery, and the buildings and land occupied are not intended for sale, and cannot be considered as furnishing funds to be paid out. It is quite generally the rule to list the current (quickly available) assets at the top of the list in order that they may be compared readily with current payments to be made, while assets not intended for sale or disposition are placed lower down.

Where of sufficient importance and extent, the assets are considered in several groups. Among these groups are:

Current assets, consisting of cash, accounts, notes and property that is to be converted into cash in the regular order of business at an early date.

Fixed assets, consisting of things owned for use, not sale, and thus occupying a fixed place in the business. Example: furniture and fixtures, machinery, building, or land owned for use.

Invested Assets, consisting of things owned for the income to be derived from them but not for the use of the business; or investments made to create a fund to meet some future maturing debt.

Wasting Assets, consisting of properties which are being drawn upon and thus losing value gradually, as mines and timberland.

Deferred assets, consisting of payments made for expenses which should apply in part to a future time and are carried as assets until charged off, part at a time, during several periods. Example: the expenses of organizing a company, paid at once but charged to expense in parts during several periods, and meantime carried as an asset.

Such distinctions as "intangible," "speculative," and "contingent" refer to different classes of assets.

Assets are resources of the business and a statement of assets and liabilities is often called a statement of "resources and liabilities." The term "resources," however, is not so much favored by accountants in this connection. It is a more general word and might apply to things which, though advantageous to the owner of the business, really have no salable value.

14. The Valuation placed on assets is an important matter, since property entered in the statement greatly above or below its real value would cause the total to be misleading. Persons often place entirely different valuations on the same thing, and nothing is more common than that one should consider his property to be

worth more than it would bring. For this reason, it is generally conceded that property should be entered "at cost," since the purchase price of anything is the last agreement between persons as to how much it is worth. It is true, however, that the value of a given thing does not remain the same, but may become greater or less with the lapse of time. When the same piece of property is included in a statement year after year, it is considered safer always to enter it at cost, and if the value has depreciated to deduct the evident depreciation, thus basing the revision on the cost. Therefore, the cost is considered the safest basis to work from in establishing the value. On the other hand, property may greatly appreciate in value, and such appreciation may be noted. But a valuation placed on any single thing at the outset is entered in the books, where it remains, and, to distinguish it from later estimates, is called the "book value."

In preparing a statement which includes items of which the cost cannot be ascertained, it is necessary to fix a valuation upon such items by the safest means possible.

15. The Liabilities of a concern include all debts which are to be paid out of the assets. These may be current liabilities such as accounts or notes payable to others. The current liabilities are usually placed at the top of the list of liabilities to afford a convenient comparison with the current assets.

Besides current liabilities, other groups of liabilities may be considered as opposed to corresponding groups or items of assets. Example: a loan payable some years hence as opposed to an invested fund which is set aside to meet it.

16. The Net Worth is the difference between the sums of assets and liabilities. It is the remainder at the disposal of the person or firm after applying the assets to the settlement of all debts. It is also called the net capital, or where the capital is set at a fixed amount, the excess may be termed "surplus."

17. The Form. The statement is made for the purpose of exhibiting the condition in brief compact form. Asset amounts always are written in the left column, liabilities in column to the right. The excess of assets over liabilities is written in the same column as the liabilities, as a balance completing the equality of left and right columns. A very compact statement of assets and liabilities is illustrated in model Forms 1 to 3. A more elaborate statement is illustrated in model Form 5.

The property and debts of persons or firms as a general rule can be itemized under a few general divisions. Among these divisions are cash, accounts receivable, notes receivable, stocks, bonds, merchandise, goods for sale or use, furniture and fixtures, equipment, plant and real estate. The liabilities commonly are included under a very few general headings: among them are accounts payable, notes payable, mortgages payable, bonds payable.

The statement may be so compact that, while it affords a view of the whole, it does not go into detail as much as may be desired. To supplement this information the details explaining any one item may be written on separate schedules and attached as explained hereafter.

18. Schedules, or lists, may be made showing the items of which the total only appears on the statement. Lists of furniture and fixtures, equipment, notes receivable, notes payable, and other lists may be made, and attached to the statement so far as they are needed to explain fully any of the items.

18 B. The Inventory of merchandise is usually the most important schedule attached to the statement of a business. This is a list of all goods for sale at the time the statement is made. The items making up the inventory should be extended at cost price and the total found. The total, however, should be reduced by the estimated depreciation in value due to deterioration in quality or loss in market value of any of the items.

Not infrequently certain kinds of goods or merchandise will increase in market value while awaiting sale. Such increase should not be added to inventory value for the reason that the increase is estimate and not fact until realized by actual sale. The best gauge of the value of property is the consideration actually given in the last bargain and sale, and not an estimate of what the property might be sold for. However, the sum set by the purchase price must be reduced, when the value has evidently decreased, because safe business management demands that any impairment of the assets be noted.

Other items of value not included under regular general headings in the statement, are also listed and included by inventory, such as inventory of accrued interest, inventory of miscellaneous property or debts.

19. Relation of Statement to Books. Although the statement of assets and liabilities is the summary of the entire property resources of the concern, it exhibits the condition on one date only. As business progresses, the parts of the business differentiated in the statement are likely to increase or decrease in quantity. Thus, cash received will increase the amount of cash on hand; cash paid will decrease it. Accounts receivable collected will decrease the total of accounts receivable on hand; sales on account will increase it. Merchandise, furniture, equipment, or other classes of property purchased will increase the total quantity and the total value of the particular kind of goods purchased, while the sale of any of these articles will decrease the remaining quantity and value of the kind sold.

In order that each item in the statement, which is limited to a given date, may be shown together with subsequent increases and decreases on any date, a ledger section of real accounts is opened. Each item in the statement is given a ledger page, or other sufficient space, the name of the item is placed as a heading, or title, at the top; and the book value is placed in the left, or debit, of two columns as in the statement. The cost

of additions to the quantity under any heading is placed in the left column, and the cost of any quantity taken away is placed in the column to the right under the heading. By this means, changes in the book value of all items comprising the statement of assets and liabilities so far as those changes are brought about by purchase, sale or transfer, are noted in separate accounts.

The account headings in the ledger need not be exactly the same as the divisions in the statement, for the statement is condensed, and one item in the statement may correspond with several accounts in the ledger. Also, new ledger accounts may be opened at any time for assets acquired or liabilities incurred after opening the business. But the mere matter of condensation in the statement or expansion in the ledger should not obscure the main idea that the accounts of assets and liabilities in the ledger comprise a "running statement" of condition.

19 B. Statements of assets and liabilities taken at the close of any accounting period are written from the results shown by the accounts of assets and liabilities. The amounts taken to the statement are the account balances, with such revisions in valuation as could not be entered conveniently in the accounts.

Recapitulation 11 to 20. A statement of assets and liabilities is made to show the net worth or insolvency of the business. It consists of a listing of all assets against all liabilities, showing the difference, which is net worth, if assets exceed the liabilities, or net insolvency, if the liabilities exceed the assets.

It is important that no items of value be entered in a financial statement at more than their asset value, especially when such items are subject to waste, shrinkage, or depreciation.

As a guide to a correct valuation, current property should first be entered in detail on schedules, where the cost is shown and appropriate deductions for diminish-

ment are made, after which the net amount or amounts are carried to the financial statement in the column of assets.

Fixed property should be carried to the statement at cost, but diminishment in value should be deducted on the statement from the cost, leaving the present value of the property to be extended in the column of assets.

Care should be taken to include all liabilities at their amounts when the statement is made in the column of liabilities.

The statement of assets and liabilities taken at the beginning of business is the basis for opening the real accounts in the ledger. The results shown in the real accounts are again summarized in statements of assets and liabilities subsequently taken.

CHAPTER III

PLAN OF LEDGER

21. The Ledger is the book of accounts. Each account is identified by a distinctive heading. The account heading designates the part, process, operation, or circumstance that a business man finds important in itself as having separate financial weight in summing up the condition or progress of the entire business. This financial weight is expressed by debits and credits.

In a modern accounting plan, four kinds of simple accounts are used, divided into two classes, real and nominal. To these four may be added the mixed account, formerly common, but now practically eliminated from the best bookkeeping systems. In addition to the four or possibly five kinds mentioned, it seems most convenient to consider as a separate kind, the accounts of net worth, which are summaries of the real accounts; and the accounts of profit and loss, which are summaries of the nominal accounts.

(1) **Accounts of Assets.** These show under their classified headings: as debits, the book value of the things owned by the person or firm; as credits, the book value of anything removed from the classification in which it previously appeared as a debit.

A credit in an asset account serves to annul in whole or in part a debit previously made in the account, both debit and credit referring to the same thing.

Example. A certain firm under the heading "Cash," enters as a debit the amount of money on hand at beginning, $1000. Of this amount, $50 was paid out, the expenditure being shown by crediting the account. Later, $100 of the amount on hand was placed in a savings bank and considered as set aside for some special purpose. Cash would be credited. The account would then show a debit, $1000 partially annulled by credits, $150, leaving a remainder of $850 as cash on hand, to be used in the ordinary business transactions. Example: "Delivery Equipment" is a heading under which four cars costing $600 each may

be debited. The book value would be $2400. Later, one of the cars is sold. The account would be credited $600. The balance of the account would show the book value of the cars remaining.

Note.—As a principle, the credit entry for the sale of an asset is in the same amount as the previous debit for the cost of the same thing, regardless of the price received. In the last example, if the car costing $600 were sold for $400, the Equipment account would be credited $600, thus annulling the previously made debit for the cost of the sold car. The amount lost, $200, would be carried to a nominal account, as explained later. If credited in the Equipment account at $400, the actual proceeds of the sale, the account would thereby become "mixed," and the account balance would not be reliable as exhibiting either the book value of the remaining cars or the loss on the sale made, until such time as the mixture would be separated.

(2) **Accounts of Liabilities.** These show under separate headings: as credits, the amounts owed to outside persons or firms; as debits, the amounts of reduction in the sums owed.

Example: Under the heading of the person's name, John Dale, for instance, $100 may be placed in the credit column, a sum which the firm has agreed to pay him. Later the firm pays him $50 on this account. The amount is entered in the debit column. Later, John Dale agrees that the amount credited him, $100, is $10 more than it should be. This amount would be entered in the debit column. The balance of the account would show a liability of the remainder, $40.

Summary of Assets and Liabilities. The excess of the total assets over the total liabilities is entered as a credit in an account, or accounts, of proprietorship, or capital. The accounts of proprietorship show the net worth of the business concern.

(3) **Accounts of Incomes.** These show as credits, under separate descriptive headings, the amounts earned or gained; as debits, deductions from the amounts earned. Thus, the amount of goods sold is credited to "Sales," the amount of interest received to "Interest Income," etc.

(4) **Accounts of Expenses.** These show as debits the value of things regarded as consumed, or losses sustained in conducting the business; as credits, deductions from the amounts previously debited as consumed. Thus, a single account headed "Expense" may be debited with all such payments, or the expenses may be divided into

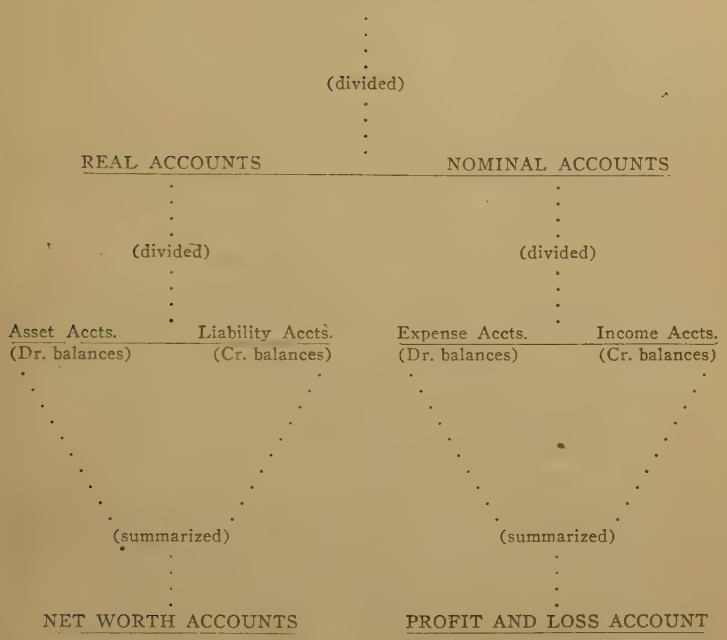
several groups with more specific headings. such as "Building Expense," "Interest Expense," "Commissions Paid," etc.

Summary of Incomes and Expenses. The income and expense totals are combined at the end of an accounting period in a Profit and Loss account; incomes on the credit side, expenses on the debit side, showing as a result of all debits and credits assembled, a net profit or a net loss for the period.

(5) As noted above, all accounts found in a ledger, except the summaries found in the proprietorship and profit and loss accounts, may be classed so as to exhibit one of four things; viz., an asset, a liability, an income, or an expense amount. And it is desirable that the accounts be planned so as to come under one of these four groups, since by so doing, the results shown by the ledger are easily understood and show day by day, without readjustment, the condition and progress. An account that shows as a result one only of the four things mentioned is called a simple account. But, occasions arise where it may be thought necessary to use mixed accounts, that is, accounts from which two or more results are to be found, as an asset and an income in the same account. In former times mixed accounts were used quite freely, but since it is necessary in such accounts to separate the several elements, one from another, before the significance of the account is apparent, mixed accounts are, generally speaking, too indefinite for practical purposes, and do not seem to be necessary in ordinary bookkeeping.

In the following work, each of the above kinds of accounts is discussed in a separate chapter. But before considering accounts more closely, it is well to fix in mind an entire ledger in which there are several sections of accounts, which follow the order illustrated in the following diagram:

LEDGER



The ledger as a whole will be considered in two parts, which will be called "the section of real accounts," and "the section of nominal accounts."

The section of real accounts comprises in effect a running or current statement of assets and liabilities.

The section of nominal accounts likewise comprises a running statement of incomes and expenses.

It is thought that the student will secure a quicker and better idea of the significance of accounts by viewing them as found in a well arranged ledger following the order of the diagram.

21 A. The Forms of Ledger Account. The ordinary form of the account may be found in Model Form 10 E, which serves as an illustration of an entire ledger page. The account is divided by vertical ruling in the center,

the space at the left is for debits and at the right for credits. Comparing with Model Form 10 C, observe that debit and credit sides are spaced off in the same way, making (1) column for dates, (2) column for explanations, (3) column for post marks, (4) column for amounts of the debit or credit entries. When a page is filled, the totals of the debit and credit columns are carried forward to the next succeeding page (see Form 10 E forwarded to Form 10 F). The account is balanced by writing the difference between debit and credit totals in the lesser side (ordinarily in red ink), addition and closing lines are ruled, after which the account is continued by placing the balance below the ruling on the side which was previously shown to be greater.

Ledger accounts are ruled in many other forms suited to different purposes. Model Form 17 D illustrates an account in a three-column balance ledger, wherein the debit and credit columns are side by side, and a third column carries the balance. This form is often used for customer's accounts, where all balances are normally debit balances. An occasional overpayment will result in a credit balance which in this form of account is entered in red ink.

A form suited to accounts having either debit or credit balances is illustrated in Model Form 27 H, where there are two balance columns making a four-column balance ledger.

Form 27 Y is an account in a cost ledger, ruled and printed in suitable form for entry of all amounts charged to a given piece of work.

The student will find it advantageous to clearly understand two common methods of rearranging the accounts in order to make either a clearer or a more compact ledger exhibit. The one refers to subdividing an account so that the parts may be carried in the ledger under separate headings; the other refers to grouping a number of accounts of a common kind in order that their aggregate may be carried in the ledger under one heading.

21 B. Divided Account. This may be illustrated by referring to Form 10 D, wherein the proprietor classified his machinery, tools, etc., under the one heading, Equipment. Under this heading, the several items making up the entire account are explained as a motorcycle

and a tool chest. He might find it would serve the purpose better to carry two accounts, one for the motorcycle and another for tool chest and the tools which he was to buy later, in order to exhibit the cost of each separately. In that case, the two amounts would be debited under two separate headings, and the account, Equipment, would be credited with the amounts redebited, thus closing it. This simple illustration will serve to show how accounts generally may be subdivided in order to exhibit some classification of sufficient financial weight to justify separate consideration.

21 C. Controlling Accounts. A certain group of accounts of the same kind may become too numerous, or require too much detail to be carried in a ledger arranged in the form of a current statement of all the conditions of the business. As an illustration, a ledger of 200 pages —large enough to contain all accounts needed to explain all general phases of the business—could not contain the separate accounts of a thousand customers, for lack of room. The customers' accounts would be placed in a separate special ledger for customers' accounts only, and the sums of all debits and credits pertaining to the customers' accounts would be placed under one heading in the general ledger. The ledger containing the customers' accounts would be called a special, or subsidiary, ledger, and the account exhibiting the aggregate in the general ledger would be called a controlling account. Controlling accounts are introduced in the general ledger whenever it is necessary to carry a group of accounts of the same kind in a subsidiary ledger or other special record.

CHAPTER IV

ASSET ACCOUNTS

22. Accounts of Assets. We have seen that in the financial statement, the assets of the business are considered under groups. Current, fixed and invested property, invested in securities, wasting, speculative, deferred, contingent, intangible and good-will assets are mentioned. Regarding the ledger as a continuous and daily revised statement, the accounts will be described in like order. The accounts, as a whole, should be kept in such a way as to exhibit the amount of the entire capital represented by each, so far as it is practicable and customary to do so.

23. The Current Asset Accounts represent the amount of the entire capital that is free to be used in the business operations. If one's capital consisted of $5000 in current assets and $95000 in fixed or invested assets, he would be said to have a large proportion of his capital "tied up," in such a way that it could not be immediately used, and the business operations would be hampered to that extent. It has been characteristic of farm owners that, though owning valuable land, they are frequently short of money and current property with which to do business. The Federal Government has recognized this condition by making special provision for loans to farmers, in order, among other things, to supply them with current funds for operating the farms to advantage.

The merchant is able to do a large volume of business by reason of the large proportion of his assets being current, or easily available. Bankers recommend that every effort be made to keep the amount of cash, accounts, notes and merchandise in the right proportions. These, and similar reasons, suggest that the bookkeeper distinguish the current asset accounts.

23 B. The Cash Account is debited to show the amount of cash at beginning. Additional receipts of cash are debited; payments or other deductions from cash are credited. The account is balanced when it is desired to show the remainder.

This account is the most used and is referred to the most frequently. Cash is a part of the business that may be stolen or lost most easily, and needs constant attention. Cash receipts and disbursements should be promptly recorded. The cash balance should be easily ascertained by consulting the cash book. For such reasons, the cash account is usually kept in a cash book, apart from the other accounts, where it can be used and consulted at will, although it is sometimes kept in the ledger.

Cash Accounts in Ledger. Form 12 C illustrates the cash account in the ledger. The debits show the amount at beginning and subsequent receipts, the credits show payments. All items are posted to this account from a journal in which full explanations can be found. In the example, the account is balanced at the close of Oct. 2, the balance being carried down as the beginning of Oct. 3.

One-Page Cash Book. Form 10 A, illustrates a cash account in which the debit and credit columns are placed side by side at the right, in order to allow more room for explanations at the left. The cash account shown here is kept in a cash book, in which the original entries are made. A cash book contains the journal record of cash transactions, together with the account of cash. The account has been balanced on the 5th and 12th of the month.

Form 10 B. This is the same cash book as 10 A, with the addition of the entries of the ledger account titles and the pages of the ledger where they are found. These page numbers are to be entered prior to posting, and serve as guides to the pages in the ledger. As each item is posted, a check mark is placed after the page number. In the form, the entries from Jan. 1 to Jan. 5 are shown to have been posted; the entries from Jan. 6 to Jan. 12 are shown ready to be posted. Thus, the first entry on Jan. 1 may be found posted to the credit of the Capital account on page 3 of the ledger. (See Form 10 E.) The last entry on Jan. 5 may be found posted to the debit of the Savings Fund account on page 1 of the ledger. (See Form 10 C.)

Two-Page Cash Books. Form 13 B, illustrates a cash book wherein receipts and payments are entered on left and right pages, respectively. The cash receipts are entered, after proper explanation, in the first column, and, when deposited, the amounts of the deposits are entered in the second column. Likewise on

the credit side, checks for amounts paid out are entered in the first column and totals carried to second column at the time deposits are made. This is a good form of cash book where cash discounts are not common.

Form 13 L, illustrates a cash book of the ordinary two-column form, but arranged with special columns for cash discounts given and received, as does also Form 17 P.

Form 17 B, illustrates an ordinary single entry cash book.

Form 18 C, illustrates a cash book with several special columns, both debit and credit.

Forms 23 E and 23 G, illustrate a cash book divided into two books: the cash received register, and the check register. A somewhat different form of the same division is illustrated in Forms 27 J, and 27 K.

Form 13 Q, illustrates a petty cash book.

23 C. Accounts of Temporary Funds are debited to show the amounts set aside for the object explained by the heading; are credited to show the amounts applied out of the fund, or withdrawn for other uses.

Form 10 C. Certain amounts of cash may be separated from the general cash, and held apart for some particular class of expenditures, or for some special purpose in a fund of which an account having a descriptive title may be kept.

Funds are set up for temporary purposes: thus, a Contingent Fund consists of amounts set aside to pay obligations likely to arise, but not yet fully determined; a Cashier's Fund, or Imprest Fund, consists of amounts entrusted to the cashier, out of which he makes payments as occasions arise, and reports the payments, later, for entry.

23 D. Accounts Receivable are debited to show the amounts to be collected from others on book accounts; are credited, to show reductions in the amounts collectible.

Where goods are sold on credit, the individual accounts receivable become a continual care, in order to make collections according to terms and to avoid carrying past due accounts on the books. To aid in doing this, the accounts are kept in somewhat different form under different conditions, a brief survey of which is here given.

The heading of the account is the name of the person or firm who is to pay it; some exceptions to this rule be-

ing noted later. In addition to the name, the address should be added, if it is needed in locating the person. Other memoranda as to rating, or information affecting the account, may be added as needed.

In the explanatory space, debit side, may be written such descriptions as terms of sale, invoice numbers, or other data that will aid either in collecting the account on time, or explaining the debit to the customer. It is often advantageous to explain credits, specifying cash, discount, note, rebate, etc. Of course, no time should be wasted in writing explanatory matter not really needed in effecting the purpose of the account.

Form 12 H. illustrates some features of an account receivable. The heading states name and address of a city customer. The debits specify that the customer is charged for merchandise. The credits show that the total debits were reduced by receipts of cash in part, and in part by goods returned. The account may be balanced at any time to show the remainder.

Form 17 D, illustrates an account with a customer.

Both forms mentioned are accounts of retail sales which are assumed to be settled monthly and have no cash discount offer.

Form 11 B. It is not uncommon to have a number of single amounts due from as many persons, to be settled in full without further debit entries. In such instances a full ledger account takes so much room and causes so much labor that a single account heading "Sundry Accounts Receivable" may answer for the amounts due from a number of persons. In the form mentioned, each debtor is given a line, his name is entered in the explanatory space, and when payment is received the credit entry should be posted on the same line as the debit.

Form 14 M. The C. O. D. (Collect on Delivery) account contains the charges to sundry customers for goods to be delivered, and paid for when delivery is made. In this account, a line is reserved for each sale, in which is posted the date, name of buyer and amount on the debit side. Sometimes the sale-number or the name of the collector is entered instead of the buyer's name. At any rate, the explanation should be such as readily to refer to the item. When the sale is delivered and the cash is returned, a credit is entered on the sale line as the corresponding charge. The C. O. D. account is kept among the other customers' accounts.

Place in Ledger. The accounts receivable are usually by far the most numerous group of accounts, and require ledger space by themselves. Where all accounts are kept in one ledger, the author recommends that after spacing the ledger to contain all other accounts, the accounts re-

ceivable be given the remainder of the ledger, so as to allow as much room as possible for the addition of new accounts.

In a business where it is the rule to sell goods on account, a special ledger for the accounts receivable is likely to be needed. When so kept, the heading "Accounts Receivable" is carried in the general ledger as a controlling account (see Form 18 B), to which is posted monthly the debit and credit totals of the items which are posted separately, under the names of the persons owing, in the several accounts of the special ledger.

23 E. The Notes Receivable Account is debited to show the amount of the principal of notes or acceptances owned by the concern; is credited, to show payments or other deductions from the principal of the notes.

Under this heading are to be included notes running but a few months, at any rate not over a year. Notes running for a period of years are better classed as Long-term Loans Receivable in a separate account.

Notes ordinarily draw interest, but interest on a note is not entered in the Notes Receivable account, for the notes are debited at face, and when paid, are credited off the account at face. When the face and interest of a note are collected, two credits are made—the face being credited to Notes Receivable account, and the interest to a separate nominal account as explained later under "Accounts of Income."

Form 11 C illustrates a Notes Receivable account containing a brief explanation of each note received. The explanation shows the payer and date due, sufficient to be a reminder of whom and when collection should be made. The payment of notes is credited on a line with the debit, thus annulling that part of the account. A partial payment may be credited above the line as in Form 12 D. By this means it is easy to see which notes are yet unpaid. This form may be used where few notes are handled and it is not considered advisable to keep a special note record.

Notes Receivable may very well follow Accounts Receivable in the ledger. When the notes become too numerous for full entry in the general ledger, or it is advisable to keep a separate complete record of them,

they are entered by number in a notes receivable record (see Form 13 M), and their totals are carried in a controlling account headed, Notes Receivable.

23 F. The Inventory Account is debited to show the value of merchandise, goods and other floating assets on hand as per inventory taken at the date of entry; is credited, with the amount standing as a debit in the account as per previous inventory replaced by the one debited later.

Taking inventory, or taking stock, is the means of finding the value of the kind of assets that cannot be carried in asset accounts because they are ever changing as to things themselves or by reason of accrual, consumption, etc. They cannot be permanently recorded as can fixed property, but must be investigated and listed on a given date. Merchandise is ordinarily the prominent item in the inventory. Merchandise, when continually bought and sold, is constantly varying as to the quantity and kind of goods on hand. Under prevailing bookkeeping methods, merchandise is debited at the cost when bought, but is credited when sold at the selling price, so that a comparison between debits and credits lacks a common unit of application. A part of the proceeds from sales represents the cost of goods taken from stock, the other part of the proceeds from sales is income. If at time of sale the cost of the goods sold had been ascertained by means of a cost system, so that cost could be credited in a Merchandise account against the cost of the goods when bought, then the Merchandise account as thus kept would show day by day a balance theoretically equal to the value of the goods on hand. This method, referred to later, is growing in favor and use. But, as records as ordinarily kept, an account showing the book value of floating property on hand at a given date by actual inventory is more reliable as a basis for use in a statement of assets than an account containing the amounts of subsequent purchases and sales. For this reason it is recommended that the accounts of Merchandise Purchases and Merchandise Sales be carried among

the nominal accounts, to be disposed of at the close of an accounting period as shown in a later chapter.

The Inventory account, then, shows floating assets at book value on a certain date only, usually when an annual or other periodic statement is made. Its amount must be raised or lowered by estimate, for statement purposes, during the interval.

The assets in the inventory list consist of merchandise or other goods for sale or use, items of various kinds collectible from others, but not already on the books, such as interest accruing on accounts or notes receivable,—anything of value for which no current account is kept. They may all be entered under one title, Inventory, each different kind being explained in a separate line; or, if of sufficient importance, the general inventory account may be divided, and the several kinds of assets be given separate accounts such as "Merchandise Inventory," "Grain Inventory," "Live Stock Inventory," "Interest Inventory," etc.

The cost of merchandise is the purchase price and all the expenses necessary to lay the goods down in the sales room. These expenses consist of freight and transfer charges necessary to place same in the store. It is customary for large stores to purchase goods long before they are to be placed in the sales room. Such goods are left in warehouses for storage until the sales season arrives. The warehouse expenses with the freight and transfer expenses, are included as part of the cost of the merchandise.

When the same articles have been bought at different times for different prices, the last price paid is often used. After the cost of merchandise is found, depreciation in value of any of the articles should be taken into account before the real value can be determined. (See Form 4 H.)

Form 13 E illustrates the Inventory account. On Nov. 1, the book value of merchandise on hand was entered as a debit. On Nov. 30, a later inventory was entered as a debit. This later inventory replaced the one previously entered, as was indicated by the credit entry annulling the debit of Nov. 1.

Under the same heading could have been placed the amount of material previously charged to Expense, but not used up to that date, explained by writing "Expense" in the same way in the explanatory space, as "Mdse." was written. So also Interest accrued or any other inventoried items. At the close of an accounting period each of these entries would be annulled by a credit entry, and the later inventories debited.

23 G. The Merchandise Account (as recommended when the account is headed "Merchandise") is debited to show the cost of merchandise on hand at beginning and to show the cost of subsequent additions to merchandise; is credited to show the cost of merchandise sold, or otherwise removed from the merchandise classification. This account takes the place of the Inventory account so far as merchandise is concerned. Since goods are both debited and credited at cost, the account balance is presumed to be the cost of merchandise on hand. This results in placing Merchandise account on the same footing as other simple asset accounts. A Merchandise account does not do away with inventory taking, but it serves as a controlling account which the inventory is to verify. Discrepancies between the Merchandise account balance and the actual inventory should be reconciled by an adjustment entry.

To keep a current merchandise account at cost involves the use of a "cost system" suitable for quickly finding the cost of all articles sold.

Merchandise Account Divided. Additions to the cost of merchandise in stock may come from several sources which the manager of a business may find it advantageous to consider under separate account headings. The account may be divided into the following or other subsidiary accounts, all of which close monthly or at the end of an accounting period into the general merchandise account:

(1) Invoice Purchases; debited to show the invoice cost of the goods only; credited, to show the invoice cost of any goods returned to, or other deductions allowed by the firm from whom purchased; or, where it is the policy of the firm to consider cash discounts on invoices as a deduction from the cost, cash discounts should be credited

also. The result is the net invoice of cost of goods to be carried periodically as a debit in the Merchandise account.

(2) Freight In; debited to show the freight and transfer charges on merchandise received; credited, to show any reductions for overcharges or rebates diminishing the freight cost. The result, the net freight, is carried periodically to the Merchandise account.

(3) Returned Goods; debited to show the cost of goods returned after being sold to customers. The total is carried to the debit of merchandise.

23 H. The Merchandise Account (as often kept, but not recommended) is debited to show the cost of merchandise at the beginning, and to show the cost of subsequent merchandise purchases or other merchandise expenses, return goods, etc., (thus far agreeing with 23 F above); it is credited to show the total amount of sales, or other disposition of merchandise. When thus kept, the account is a mixed account, since the account balance shows neither the book value of goods in stock, nor the profit from sales, but both together. These are separated at the close of an accounting period by crediting the account with the closing inventory, the balance after that credit being profit or loss. The account is ruled and the inventory is carried down (debit side) as a continuation of the account into the next accounting period.

This form of the Merchandise account was formerly prevalent, and is now extensively used. For that reason, it is mentioned here, since the student is likely to meet with it. Though the principle governing it may be applied probably to advantage in some instances, it does not seem desirable to represent this most important element in many businesses, by using a mixed account.

23 I. The Manufactured Goods Account, Finished Goods account, or Completed Product account is debited to show the factory cost of the goods made by the concern; is credited to show the cost of the goods sold or otherwise disposed of.

The cost consists of three items: materials, productive labor, and manufacturing expenses or factory overhead, referred to in Prin. 23 J-K-L. This account is handled in the same way as the Merchandise account explained in Prin. 23 G.

23 J. The Materials Account is debited to show the cost of material to be made into manufactured articles; is credited to show the cost of materials used in making the manufactured articles. The balance of this account should show cost of materials in stock. This is a manufacturing account. It may be divided, to suit the purpose, into accounts for several classes of materials. Among such distinctions are:

Raw Materials, consisting of material in its raw state, as lumber, ore, sand, etc.

Finished Parts, consisting of materials on which some work is done after which it is returned to stock.

The raw material of one factory is frequently the completed product of another, so that the divisions of materials in any factory is made in accordance with the classification applicable to that particular concern. Materials may be carried in as many accounts as desired.

23 K. The Labor Account is debited to show the amount of wages paid workmen in a shop or factory; is credited to show the labor reapportioned as a part of the cost of the things manufactured. The balance of this account shows the amount of labor on material in the making, and to be apportioned to manufactured articles when they are completed. This account is divided into Productive Labor, and Nonproductive Labor; or it may be divided by departments, as "Productive Labor Dept. A," Dept. B, etc.

23 L. Factory Overhead is debited to show the amount of factory or shop expenses that are chargeable to the things made as a part of the cost of making; credited, to show the overhead reapportioned to completed products.

23 M. Grain, Produce, Etc. The accounts of goods

kept for sale or consignment that are not very well called "merchandise" may be kept under headings similar to these named. They are probably best included in Inventory account in most instances, or they may be handled as in the Merchandise account, depending on conditions.

24. Fixed and Invested Property Accounts refer to property of a permanent nature owned by the concern for use either in conducting the business or in bringing income.

The items comprising the fixed property are, as a rule, easily distinguishable things, such as building, furniture, machinery, delivery equipment, etc. These things remain in the business year after year so that it is economy of time to plainly name them when first entered in ledger accounts, where the book value of each remains as a permanent record.

Thus, under the heading "Furniture and Fixtures" may be entered on separate lines, office desk, $28.00; bookkeeper's desk, $16.50; 3 showcases, $78.40; cash register, $210, etc. The purpose is to so describe the items that the cost of any one thing of importance may be ascertained by referring to the account.

Should the items in an account be too numerous for convenient space in the ledger, they may be carried in a separate ledger or record book, and their total carried in the general ledger in a controlling account.

In case of sale or other disposition of any of them, the account under which it had formerly been debited should be credited at cost, the credit entry being written on the same line as the debit entry, thus annulling that debit item. The difference between the total of debit and credit entries is the cost of the items remaining.

Depreciation. In view of the wear and tear incident to permanent property, the value of such property is constantly undergoing depreciation, that is, reduction in value by use. This depreciation is easily computed from a knowledge of the ordinary term of usefulness of the kind of property considered. In order that depreciation may not impair the capital of the business, the correct

practice is to charge as an expense, at the close of each accounting period, an amount equal to the loss through depreciation; that is, to enter depreciation as an expense belonging in the accounting period in which the depreciation occurs. The account credited in the ledger for the amount thus charged is entitled General Reserve for Depreciation if one reserve is kept for depreciation on all accounts. It is frequently advisable to open a separate reserve account for each fixed asset account: thus, Reserve for Depreciation on Office Furniture, Reserve for Depreciation on Delivery Equipment, etc.

The Reserve account serves as a credit offset against the debit in the Property account. Thus, the account of a building may show (debit side) the cost to be $10,000. Assuming that three per cent per year is allowed for depreciation, the amount $300, would be credited to the "Reserve for Depreciation on Building" account and debited in an Expense account, as is explained later when nominal accounts are discussed. This credit in the Reserve account would act as an offset, showing that the building is carried on the books at cost $10,000 less $300 depreciation.

If a Reserve account is carried for each invested asset account, it may very well be placed next to the account of the property to which it refers, conveniently showing, by a comparison of the cost with the reserve, the net amount at which the property is carried on the books.

Appreciation. The ground on which a building stands, or any ground or other property, may increase in value, and frequently does. But accountants, as a rule, do not recommend that any account of appreciation be kept in the books. It is true that a lot costing $1000 may possibly have risen in value so as to be salable at $10,000. This would clearly strengthen the position of the concern to the extent of $9,000. But to place the appreciation on the books as an added asset of $9,000 would simply be making a record of an estimate. Accountants generally regard entry of appreciation on the books as

being subject to so many chances of bad judgment as to make entire exclusion the rule.

It is better to consider accounts of permanent property as showing how much capital has been invested in immobile things, not as showing how much those things may bring if sold. Asset accounts do not show what property may be, could be, might be, or even what it probably is worth, but what it was decided to be worth by both buyer and seller when it was bought.

Income from Property. Property used in the ordinary operations of the business produces no income; or rather, the income from it consists in its use. The expenses of such property, repairs, replacements, etc., are expenses of the business as a whole. But property owned for income, as a house to be rented, should be accompanied by a special Income account, showing, as a credit, the income from that specific source. The expenses pertaining to that particular piece of property should be debited in the same Income account, resulting in a balance showing the net income from that source as explained in the chapter on nominal accounts. Such an account may be headed "Income and Expense of ——," or simply "Income from ——." In any case, the expense of the property is entered against the incomes from that property.

Speculative Investments, including property bought and held for a possible rise in the market, are not considered in this number, but are discussed in Prin. 27.

24 A. The Real Estate Account is debited to show the cost of the land, buildings, or both, as represented by the heading; is credited to show the cost of the property sold or otherwise gone out of possession.

The cost of the property includes expenses of securing title and preparing for occupancy, for the cost of any additions to buildings or permanent improvements; but not for expenses in repairing or replacing damages. When credited at cost, the difference between cost and selling price is credited or charged, as the case may be, to Profit and Loss account; or if Profit and Loss account

is reserved for the operating profits only, to Surplus account.

Remark.—The ordinary expenses for repairs and upkeep and the income derived from the rent of the property are entered to an Income and Expense account, of the property.

Division of the account is desirable so far as may be necessary to separate pieces or parts that are distinct one from another. There should be a separate account of each separate property, and an account heading should be used describing it; thus, "Building and Lot No. 58-60 Market St.," "Lot 7, Blk 2, McGrew's 1st Addition to Chicago," "Farm Property S. E. ¼ N. W. ¼, S. 5, Twp. 27, R. 5 W., 6 P. M.," etc.

These titles are long and cumbersome for ordinary posting entry, although useful in the ledger. They can easily be abbreviated in the books of original entry.

Land and buildings are, as a rule, better carried in separate accounts. A depreciation on buildings is absolutely certain. The buildings must be replaced in course of time, and by accumulating a reserve for this purpose, year by year, a part of the business earnings will be held to replace the buildings or equalize their loss.

The land itself cannot be said to depreciate or appreciate in any fixed or certain way, so that its value should not be included with the building cost as a base on which to compute depreciation.

A controlling account, headed "Real Estate" may be used to show the aggregate amount of the accounts of several properties kept in a separate ledger or record book.

24 B. Furniture and Fixtures account is debited to show the cost of office and store appliances such as desks, chairs, counters, lighting fixtures, etc., used in the business; is credited to show the cost of any of these items sold or disposed of.

If the items are numerous they may be kept in a subsidiary record and a controlling account carried in the general ledger.

The account may be divided among different departments of the same business.

Depreciation is carried in a reserve account as explained in Prin. 24.

24 C. Machinery Account is debited to show the cost of machinery purchased; credited, to show the cost of machinery sold or disposed of. It is better to distinguish machinery in a factory from equipment and from tools.

Depreciation in the value of machinery is an important item of expense wherever machinery is used; for all machinery in course of time wears out, or becomes useless as compared with newer styles that replace the old. This loss in value of the machinery, as in the case of any other depreciation, should be charged among the expenses of the accounting period in which it occurs, and credited in a Reserve for Depreciation account. How much to carry to the reserve annually depends on the life of the machine, which may be five, ten, or fifty years, more or less, depending on the kind of machine and how it is used.

Accountants recommend keeping a subsidiary record of each machine, showing its cost and term of usefulness. Other entries, such as cost of repairs and replacements, add to its value as a record.

24 D. Tools Account is charged to show the cost of small tools when bought; credited, to show the proceeds of any tools sold.

Tools are comparatively small articles which it is difficult to keep record of individually in the ledger, more especially as they are frequently lost or used up and replaced. For this reason, accountants recommend that an inventory of tools be taken regularly and that the tools be revalued at statement time. In that case, the total of the inventory taken when the books are closed takes the place of the balance previously standing in the Tools account.

An account of reserve for depreciation on tools is not necessary because tools, considered separately as a part of the assets, are not sufficiently fixed to continue in the

statement for a period of years. Where the tools are not revalued at statement time, and there is a purpose to make a record of an estimated depreciation or diminishment in the value of tools, the amount of depreciation would better be credited directly to the Tools account, instead of being credited in a Reserve account.

The Controlling Account of Tools may be explained by a tools ledger or tools record.

24 E. Equipment Account is debited to show the cost of the appliances used for some general or specified purpose in business; is credited at cost when sold to annul the debit for the items sold.

The heading, Equipment, is in common use as a designation for the entire outfit of appliances used in a business, as a carpenter's or contractor's equipment; or it is divided, as Delivery Equipment of a store, Heating Equipment, etc.

In factory accounting a distinction is commonly made between three classes of appliances as distinguished by the following headings: Machinery, Tools, and Equipment; the last named referring to appliances in general use, as shafts, belts, pulleys, trucks, etc.

If carried as a controlling account, a list of the items should be kept in a subsidiary ledger or record book, otherwise the items should be listed in the ledger account.

Equipment of all kinds wears out or is obsolescent with time, so that the profits of a business will be overrated unless the loss of a given period, through depreciation, is deducted from the income of that period. This charge to income should be credited in a Reserve account unless the equipment is of such a nature as to require a revaluation, from period to period, by inventory. The reserve serves as an offset reducing the amount at which the equipment is carried on the books; or if the equipment is revalued, the latest inventory replaces the former total charge in the account.

25. Accounts of Invested Funds are debited to show

the amounts placed in the fund; credited, to show amounts applied or withdrawn from the fund.

A permanent fund indicates something set aside from the general business expenditures, and saved to meet a future obligation. This money set aside is, as a rule, made productive by investing it in stocks, bonds, mortgages or other securities which will yield a fair rate of income to be added to the fund.

25 A. Sinking Fund. As an instance illustrating the purpose of a sinking fund, assume that the owners of a coal mine borrow money to develop the property, giving a ten-year bond and mortgage. Inasmuch as the coal mine may be worked entirely out within ten years and be worth nothing from which collection of the mortgage could be realized, the lenders may make it a condition of the loan that a certain amount of the annual earnings of the property be set aside in a fund until the fund be sufficient to pay the indebtedness. This fund is held by a trustee, who sees that the conditions are complied with and who invests the fund so that it may be increased by the income earned thereby. When the indebtedness of the concern matures, it is paid out of the fund, and, of course, any remainder is turned back to the owners.

The payment of city, county, state and public bonds is commonly provided for by means of sinking funds into which certain amounts are set aside annually from the tax collections.

25 C. Mortgage Loans are long-time (from one year to ten or more years) obligations, and draw a stated rate of interest payable annually, semi-annually (every six months), or quarterly (every three months).

A ledger asset account under the title, Mortgage Loans Receivable, may be kept. This is in the same form as the account of Notes Receivable (see Form 11 C). The account is debited for the face of the loans, and credited for the payment of principal. The interest receipts collected from them are credited to Interest account, which

is kept in the part of the ledger reserved for nominal accounts.

Loan securities are often purchased for an amount equal to both principal and accrued interest. In that case the interest accrued should be charged to Interest account, not to Mortgage Loans, so that the charge to the latter account will be the face of the paper. When paid, a credit is made directly opposite, on the same line, to the charge for the given payment.

Loan records may be kept in a separate subsidiary ledger or record, of which a controlling account in the general ledger will give the aggregates; or they may be recorded in an auxiliary book. This subsidiary book contains ruled columns for description of each item, like the notes receivable book.

25 D. Bonds for the repayment of loans are issued by the nation, state, city, county, township, school district, or other public corporations; by transportation, trading, manufacturing, or service corporations; by firms and by private persons, as evidence of their promise to pay, at a future time, a sum of money with annual, semi-annual or quarterly payments of interest thereon. Bonds are frequently secured by mortgage on property. Bonds are bought by the investor at par, at a premium, or at a discount. When bought, an account headed Bonds may be debited to show the face of different kinds as annotated in the explanatory space of the account; or, a separate account may be kept for each kind. When sold, the account is credited at face, and the difference is carried to Profit and Loss.

25 E. Stocks Account is charged at cost, for the purchase of stocks by the concern. Each purchase is given a line in which is entered, in the explanatory column, the date, name and the par amount of the share, or block of shares; and the cost in the money column.

Brokers who handle stocks freely, open separate ledger accounts for each kind of stock. In that case, the name of the issuing company appears as the heading; thus, D. & R. G. Ry. Stock.

When stock is sold, an entry is placed to the credit of the account on the same line as the debit for the same shares, and at the same price. As it often happens that the stocks are sold for either more or less than their purchase price, the difference, if the selling price is less than the cost, is debited, or if greater, is credited, to Profit and Loss.

26. Wasting Asset Accounts are debited to show the cost of the property; credited, period by period, to show the amounts of depletion from the original value. Such accounts are distinguished from other fixed property in that they represent something that is being absorbed gradually; as a coal mine, a tract of timberland, a stone quarry, and the like. A part of the asset value is being withdrawn day by day in the regular course of business. The property is not to be replaced, but is to be absorbed more or less depending on the value for other purposes after it is worked out. A Reserve account for depletion would be out of place. The amount written off each year is to be credited directly in the account. It should be "written down" so as to appear at a safe valuation as an asset.

There is often special reason for considering depletion with care. A manufacturer who uses timber, sand, clay, etc., taken from his own property, must include depletion as a part of the cost of his product.

27. Speculative Asset Accounts are debited for the cost of the property bought (or the appraised value of gifts), also, for expenses attached to the speculation; and are credited for incidental incomes derived therefrom. When the speculation is closed out by sale, the account is credited for an amount equal to the debit balance; and the difference between the debit balance of the account and the amount realized from the sale, is posted to Profit and Loss.

Speculation is business venture that involves unusual risk for the purpose of realizing unusual gain. Thus, a piece of land may be bought for a certain sum in the hope that a customer will be found who will buy

it for a greater sum than that paid for it. Such speculation differs from business investment. In the latter, property is bought for use or for trading, that is, distributing goods to consumers by purchase and sale primarily without reference to market fluctuations. Speculation may consist in buying commodities for shipment and sale in a distant market; development of patents or copyrights, or securing property or claims of any kind with a view to realizing more than their present current value. It may also consist in buying the obligation of another concern to deliver a commodity at a future date, as is frequently the case in board of trade transactions.

Property taken for debt is similarly treated, as when a bank or lender takes over property given for security. Likewise, when an educational or eleemosynary institution receives property as a gift to be disposed of for its benefit, the account of the property so treated would be that of a speculative account.

Any account of a speculation is headed with a descriptive title, as: Shipment to Central Commission Co., Speculation in Oregon Timber, Publication of Base Ball Score Cards, Futures in May Wheat, Salvage of Jackson Elevator, Maywood Addition.

28. Intangible Asset Accounts are debited to show their valuation on the books at cost; credited, to show diminishment in value through lapse of time, or other reasons. The purpose is to write them down periodically until their book value entirely disappears.

Such accounts represent the valuation placed on some right, privilege, condition, or circumstance that cannot be bought and sold as ordinary real or personal property, but that is plainly a factor in the profitable operation of the business. The value expires with time.

Such accounts should be debited for the actual cost (not an estimated value), and ordinarily should be reduced by credit at the close of succeeding accounting periods for an estimated diminishment in value, if such

is plainly apparent, or arbitrarily reduced with a view to final extinguishment.

28 A. Patent Rights Account should be debited at the price paid to a patentee for a right to manufacture and sell his patented article. Such patents expire by time limitation. The account should be credited from time to time for an amount sufficient to equalize the diminishing value of the patent. The account heading should describe the particular patent.

28 B. Copyrights Account is debited for the cost of matter for publication which is protected by registry under the copyright laws of the United States or other nations. The account is treated in the same way as patent rights.

28 C. Franchise Account is similarly debited for the cost of a franchise conveyed to the business. A franchise is granted for a term of years so that this cost should be extinguished during the period it is in effect, and therefore represents a diminishing asset that should be equalized by charging Profit and Loss and crediting the Franchise account each year with the amount of the expired portion.

28 D. Accounts of Deferred Expense Items are debited to show amounts paid or incurred for items that will be chargeable to expense at a later time, but before that time are carried as assets; credited, to show a portion or all of the deferred items written off as expenses.

Expense accounts should show what amount of expenses were consumed in a given period of time, regardless of when the expenses happened to be paid. Hence, expense items, sometimes paid in one period, that should be charged as expense in a later period, are carried over as assets. Thus, a certain sum paid for advertising material to be used in the year following its charge, might be carried as an asset on the books until the time when it should appear among the expenses; at which time the credit in the Asset account, and the corresponding debit in the Expense account, is made. Where the proportions

existing between sales or production and expenses are computed closely, care must be taken to limit the expense charges to things actually consumed in a given period. A few examples following will illustrate the principle and enable one to identify other instances of like nature.

28 E. Insurance Account is debited, ordinarily as a deferred item, for the annual cost of premiums on insurance policies. At the close of regular periods, sometimes monthly, sometimes annually, the account should be credited for the consumed portion and the Expense account of the business, or of the department to which it belongs, debited.

28 F. Taxes, usually paid annually or in semi-annual installments, may be debited as a deferred item, while one-twelfth of the annual cost is credited monthly and a corresponding debit made to the expenses of the month.

28 G. Organization Expenses of a corporation sometimes are in excess of, or at any rate out of proportion to the income of the first year; so instead of charging them as expense in total during the first year, they are carried in an Asset account to be transferred to expense, part at a time, during succeeding periods.

29. Contingent Assets are those that may or may not be realized in cash, depending on some unforeseen circumstance. Among them are accounts, notes, judgments, and disputed adjustments that might be collected. Accounts of this nature are very well kept in a memorandum ledger. It is well understood that these accounts are not worth face value, in fact it is presumed that few of them will be collected; but, included in this list are all that might be collected. This record of contingent assets may have a controlling account in the ledger, kept more as a notice of the existence of the list than anything else. As a reminder that such a list is to be found, a nominal value of one dollar may be charged to a controlling account in the general ledger.

30. The Good-will Account is debited to show the valuation placed upon the reputation, standing or trade

advantages of a business, and included as a part of the assets when the business changes hands; credited, at regular periods out of profits earned, with a view to finally writing it off the books.

The opening of a Good-will account may be illustrated thus: Firm B buys Firm A's business which shows the net worth, by a statement of property and debts, to be $40,000, but pays for it $50,000. The $10,000 paid in addition to the listed net assets, is the value placed upon the trade advantages developed by Firm A. The new firm will open an account headed Good-will, debiting the amount allowed in that account. It seems clear that the good-will developed and sold by Firm A will begin to diminish as soon as the business is operated by Firm B, so that after a given number of years, the thing bought would have been entirely exhaused, even though the Firm B continues the business profitably and could sell it to another firm at an equally good or even better estimated good-will; so that the amount standing in the Good-will account does not seem to represent any subsequently favorable or unfavorable development in the business, and, as a consequence, is entitled to no permanent place in the books.

CHAPTER V

LIABILITY ACCOUNTS

31. The Accounts of Liabilities show the amounts that the proprietor is under obligation to pay to persons outside the business. The funds to pay liabilities are taken from the assets. Asset amounts are found as debit balances, while liability amounts are credit balances.

Under liabilities are included accounts payable, notes payable, liability inventory of otherwise unrecorded payables, long-term obligations including mortgages, bonds and loans payable, and contingent liabilities.

They are classified as current liabilities (within the year), long-term liabilities (one year or more), or contingent liabilities.

32. Current Liabilities: Accounts Payable are credited to show the amounts the firm has assumed to pay others; debited, to show reductions in the amounts payable.

When accounts payable are opened for goods bought at retail, or for services as of transfer concerns, doctors, mechanics, etc., it is customary, unless otherwise specified, to settle about the first of every month for the amounts credited during the preceding month.

When keeping an account payable for goods bought at wholesale, it is usually better, and often necessary, to pay each credit separately. This is done because wholesalers usually allow a specified term of credit, running from the date of the bill. Thus, an invoice of goods bought June 19th, on account at 30 days, should be paid by July 19. Such terms of credit as 30, 60, or 90 days, or 2, 3, or 6 months, are allowed. The difference in time varies in different lines of trade.

Such accounts should show the credits entered when the invoices are allowed, and in the explanatory space of the ledger, date of invoice, and the term of credit

should be entered, if any special term is granted. (See Form 13 H.) The payment of a specified credit should be debited on the same writing line as the credit, thus showing what charge is canceled. It is a good plan to use a sign "x" before the credit amounts that have been paid, as a convenience in easily picking out the unpaid credits later. (See Form 13 I.)

When a deduction or allowance is made from an invoice of goods bought, it is a good plan to debit the allowance opposite the credit to which it applies above the writing line, so that full settlement of the credit may be charged on the writing line. (See Form 12 D.)

A controlling account headed Accounts Payable represents the aggregate of all unpaid accounts in favor of other persons or firms. Sometimes the titles Purchase Ledger or Trade Creditors are used, meaning the same thing. When the voucher system is in operation, the title Vouchers Payable bears the same relation. The account is credited at the close of the month, or other posting period, for the total credits to firms for merchandise bought; and charged for the total debits to firms for payments or allowances. The balance shown by the controlling account can be verified by a comparison with the total of a list of unpaid balances taken from the purchases ledger or, if a voucher system is used, from a list of the vouchers payable.

32 E. Notes Payable Account is credited to show amounts of notes or accepted time drafts issued for payment later; is debited to show payment made, or other allowance reducing the amount to be paid.

Notes given by the concern are recorded in similar manner to notes receivable under similar conditions. (See Prin. 23 D.)

32 F. Liability Inventory Account. At the close of an accounting period, certain liabilities that have not been recorded, may be taken into account. Among these, are accrued interest on notes or accounts payable, wages and salaries earned but not yet paid, and other payments to be made for unrecorded benefits already received. These

should be listed in the inventory book and their total credited to the account of Liability Inventory. A corresponding debit is then made in the nominal accounts to which they pertain. At the close of the following period, the Inventory account is debited and the nominal accounts involved are credited, thus balancing out the old inventory. The new, or current, inventory is then entered as before.

33. Long-Term Indebtedness. Bonds, loans and long-term notes payable are credited in the books to show the total obligation under the appropriate headings; debited, to show the obligation canceled in part or wholly.

The long-term obligations require full records as to terms of payment, also rate of interest, and other essentials.

Where few such obligations are issued, an ordinary ledger page may be made to contain the records; but where there are a series of such obligations, a separate record book is needed.

As mentioned in Prin. 25 A, a sinking fund is commonly accumulated in order to provide for long-term obligations in full, or to retire bonds or notes payable part at a time.

34. Contingent Liabilities are obligations that may become current, should another person, who is the principal debtor, fail to pay them. They consist principally of notes receivable discounted and accommodation paper. Should the principal debtor fail to pay them, they become serious matters and therefore should be followed up closely.

34 A. Notes Receivable Discounted Account should be credited for the face of all notes receivable which have been endorsed over to the bank or to individuals for cash or credit. The items should be entered and described as in the Notes Payable account. The corresponding charges are to Cash and to Interest and Discount. When the notes are paid by the makers to the holders, entries are to be made debiting Notes Receivable Discounted account and crediting Notes Receivable account.

If the endorsee fails to collect, the endorser is obliged to pay the amount of the paper. In that case he charges Notes Receivable Discounted for the notes returned to him, the Notes Receivable account standing without any change.

34 B. Accommodation Paper Account is credited for the face of the paper signed for the accommodated party. Each item should be entered with the same attention that is given to a note payable. The corresponding charge is to the party accommodated, thus, "John Smith, Accommodation." When the obligation is met by the principal debtor, an entry is made charging Accommodation Paper, and crediting the party who was charged for the accommodation.

35. Reserve Accounts are credited to indicate an addition to the book value of the assets. Such additions are made to anticipate losses in the accounts named in the reserve. The Reserve account is debited with the amounts of such losses when they actually occur.

The effect of a reserve is to withhold a certain part of the apparent profits from distribution.

The accounts of assets and liabilities, taken as a whole at the amounts entered as the result of transactions, may overstate the real net worth of the concern. This overstatement may occur in several accounts. For example, an account of fixed property may show the cost to be $10,000; but would not show that it had depreciated to the extent of $1000. Or, an account of notes receivable may show that the concern has received notes to the amount of $25,000, but would not show, what might be the case, that $500 face value of those notes will be found to be uncollectible, and will result in a loss.

Before allowing all apparent profits to be withdrawn, the prudent directors of a concern may find it advisable to keep or reserve some of the profits, either as an offset against diminishing capital, through depreciation in value of property owned, or as an offset against bad debts, or as an addition to the general resources of

the business. Such amounts reserved are represented by Reserve accounts, which receive credit for the amount retained. The cash or property reserved is included in the aggregate of the Asset accounts, and balances the credit in the Reserve account in the same way that the accounts of the remainder of the assets (less liabilities) balance the Capital account.

35 A. Reserve for Depreciation Account is credited to offset loss sustained through the diminishing value of fixed property through ordinary wear. The credits to this account should show, in the explanatory column, the particular property account that each item pertains to if one reserve for Depreciation account is kept for all property. A separate Reserve account may be opened for each property account; as, Reserve for Depreciation (Plant), Reserve for Depreciation (Delivery Equipment), etc. These accounts should show enough reserve to equal the difference between the cost of the property and its present market value. Depreciation is an expense, as real as the payment of rent or salaries, and should be charged regularly regardless of whether the business is being run at a profit or at a loss.

When any given building or machinery carrying a reserve for depreciation is sold, the entry of the sale should contain a debit in the Reserve for Depreciation for an amount to balance the credit in the Reserve account which applies to the sold property.

35 B. Reserve for Doubtful Accounts. When an examination of the accounts receivable discloses the fact that any of the accounts are doubtful, or that losses will probably occur in enforcing collection, it is apparent that the total of the accounts receivable balances is greater than the asset value of the accounts. The shrinkage in value may be offset by an estimated amount taken from profits and credited to an account of Reserve for Doubtful Accounts. This reserve should be revised annually to show an amount equal to the probable losses that will be incurred through bad debts. When a reserve

has been set up in one accounting period, the actual losses incurred from accounts becoming worthless in the following period should be charged to the Reserve account until the reserve is charged off, rather than to Profit and Loss.

35 C. General Reserve Account. This account may be used to contain credits of reserve for depreciation, for bad debts, or to meet any future contingencies of the sions included in the concern.
business; or it may be used to increase the amount of working capital.

The objectionable feature of carrying reserves beyond business needs is, that such reserves may be made without the knowledge or consent of stockholders or interested investors, who would be entitled to a larger share of profits, if such profits were distributed in the period when earned.

36. Surplus Account. This account is credited to represent profits reserved to increase the financial resources of the business, or simply to represent profits prior to distribution in dividends. The report of the United States comptroller of the currency shows statements from many banks that have permanent Surplus accounts equal to, or greatly in excess of the Capital Stock account. Surplus account represents earnings which may be retained in the business as capital, paid out in dividends, or applied on losses.

CHAPTER VI

PROPRIETORSHIP ACCOUNTS

37. The Capital Account of an Individual Proprietorship is the account credited for the money and other assets invested, or owned as parts of the concern for which the books are kept. The amount of this credit is diminished by the amount of any liabilities that are to be paid out of the assets. It shows, therefore, the net worth of the concern, though not necessarily the net worth of the owner, who may or may not have his entire possessions included in the concern.

The Capital account shows as a credit amount the excess of total assets over total liabilities of a given concern. This credit is the amount that the proprietor could expect to have for other purposes if the business in which it is now used should be discontinued.

37 B. The incomes of the business increase the capital, and the expenses diminish it. If they were credited or charged to the Capital account, as they occur, the Capital account would at all times represent the worth of the business. This may be done, but the custom is to credit the incomes and charge the expenses to certain nominal accounts which, once a year or other period (called the accounting period), are combined into one result and carried to the Capital account. Thus, the Capital account of an individual proprietorship shows the exact capital or net worth of a business only at the close or beginning of an accounting period, the nominal accounts showing the increase or decrease in that capital during the intervening time.

37 C. As a general rule, in the larger concerns, as well as in many of the smaller ones, the capital is fixed at an amount not to be increased or diminished by the profits and losses. In this case, the amount of the net profit or loss of a given period is not carried from the

nominal accounts to the Capital account, but is carried to the proprietor's Drawing account, an account that is credited for amounts which he may draw out of the concern for his personal use.

37 D. The title of the Capital account is written in various ways; thus, John Smith, Capital; John Smith, Proprietor; John Smith, Investment; John Smith, Stock; or simply John Smith. The title may also be unpersonal, as Stock, or Capital. The form John Smith, Capital, is preferred. The position in the ledger assigned to the Capital account varies with different bookkeepers. It seems preferable to place it last in the division of real accounts, wherein Asset accounts appear first, in the order of their convertibility, followed by liability accounts in the order of their immediate or remote demand for payment, followed by the summary in the Capital account.

This is also the most convenient place for reference when making a trial balance or a financial statement; especially since, once a year, all the nominal accounts following in the real accounts are closed, leaving the ledger intact to that point.

37 E. Forms of individual Capital account:

Forms 10 E and 10 F. The account is here credited for investment and for incomes and charged for expenses item by item. The balance of this account, taken at any time, is the amount of net worth.

Form 10 H. The Capital account remains as at the beginning of the accounting period, while the incomes are credited in one nominal account (Form 10 I) and the expenses in another (Form 10 J).

The same accounts, copied on the opposite page, show the income (Form 10 M) and the Expense (Form 10 N) carried to Profit and Loss (Form 10 C) from which account the balance is carried to the Capital account (Form 10 L). This account, when balanced, exhibits the same amount as did Form 10 F by the former process.

If, after showing the net profit of $4.75 (Form 10 O) it had been decided not to increase the capital, but to withdraw the profits, the balance of the Profit and Loss account would have been carried to the credit of another account entitled, Charles Burton, Drawing. This account would be charged later for the amounts drawn out by Burton for his personal expenditures.

38. The Capital Accounts of a Partnership are credited for the investments of each of the partners separately. Thus, if John Smith and Lewis Jones enter into partnership, upon opening the firm books, an account entitled, John Smith, Capital, or John Smith, Partner, will be credited for the capital which he invests, as is done in the capital account of a sole proprietor; an account entitled, Lewis Jones, Capital, or Lewis Jones, Partner, will be similarly credited for the capital contributed by the latter. If there are several partners, a like entry will be made crediting the Capital account of each.

When the Profit and Loss account is made up at the close of the accounting period, the net profit or loss, in the absence of any agreement to the contrary, is divided equally among the partners. If there is a special agreement as to the proportion each is entitled to, the profits are divided according to that agreement, and the part belonging to each partner is carried to his Capital account or to his Drawing account.

39. The Capital Account of a Corporation is credited for the amount of the authorized capital of the concern. If this amount is paid into the company in cash or property by the investors when the concern is established, the opening entry is very simple—the asset accounts are deducted, and the Capital account is credited But this condition rarely exists, for the reason that the entire capital cannot ordinarily be secured from the investors at one time, but is frequently collected in installments. Furthermore, subscriptions for the entire amount of the authorized capital stock may not be found at the time of organization. Again, the legal obligations of each of the members to the company, and the obligation of the corporation to the state, require special record to guide in their enforcement. Thus, if the capital is not all paid in, the Capital Stock account should be diminished by certain accounts, the debits of which show how much of the amount credited to the Capital Stock account exceeds the real capital of the business. The principal

accounts of this nature are entitled, Subscriptions, Unsubscribed Stock, and Treasury Stock.

The net profit or loss is not carried to the Capital Stock account of a corporation, but is carried to Surplus; except where a deficit results, when the amount of the deficit should be debited in an Assessment account which shows losses to be pro-rated among stockholders and collected from them.

39 B. The Share of Each Stockholder in the capital stock must be recorded also. If there are few stockholders, and these do not expect to transfer their shares actively, a line in the Capital Stock account may be given to each stockholder, showing his name and the amount to his credit. The amount standing to the debit of Unsubscribed Stock will also be given a line following these credits, making the total equal to the entire capital as shown by the articles of incorporation.

If a stockholder transfers his shares to another person, a debit opposite his credit is entered, and the person receiving the transferred shares is credited on the next line below. If unsubscribed stock is taken, the line in the Capital Stock account credited for unsubscribed stock is debited for the full amount, and two credits are entered—one for the new stockholder, and one for the remainder unsubscribed. Thus, the Capital Stock account shows the names of stockholders and the amount of stock belonging to each, together with the unsubscribed portion.

39 C. When there are many stockholders, and when the shares are transferred from one holder to another quite freely, a subsidiary Stock Ledger should be used which will contain separate accounts with all stockholders. Each is credited for his holdings, and charged for his transfers of stock to others. It should be remembered that the transfer of stock from one shareholder to another does not involve any change of values so far as the company is concerned, but merely shows who is entitled to the benefits of the stock, and the face value.

The total credits in the stock ledger should be equal to the credits of the Capital Stock account, less the amounts standing in Unsubscribed or Treasury Stock accounts.

39 D. Treasury Stock is stock duly issued as fully paid, and later purchased by the issuing concern, or received by it as a gift. Treasury Stock may be sold by the concern at market price, which is not the case when stock is first issued, for then it must be paid for at face. The account of Treasury Stock is simply a property account, to be debited at cost for the amount paid for the stock, and, if resold, to be credited as accounts of other stocks not issued by the concern. When Treasury Stock is received by the concern as a gift from stockholders, it is frequently the practice to debit Treasury Stock account at par, and balance this entry by an account entitled Reserve for Treasury Stock.

Recapitulation 21-40. The section of real accounts is kept to show the current financial condition of the assets and liabilities.

It is recommended that this section of the ledger be subdivided into (1) Asset accounts, (2) Liability accounts, and (3 accounts of Net Worth.

The Asset accounts begin with cash, and continue, followed by accounts and notes receivable and other current property, after which follow fixed and invested property, and that in turn by accounts of things less available or real.

The Asset accounts represent things at cost valuation, diminished by depreciation, which in the case of fixed property is shown in Reserve accounts. Current property is revalued from time to time by inventory. Appreciation in the value of fixed property is not entered in the accounts.

The Liability accounts follow the Asset accounts. They begin with accounts and notes payable, which are followed by long-term liabilities, contingent liabilities, etc.

Following the Liability accounts, is the part containing the accounts of Net Worth. These accounts include reserves, surplus, capital and drawing accounts of owners or partners.

The real accounts should be kept as far as possible in such a way as to comprise a current statement of assets and liabilities, and for this reason it is recommended that mixed accounts be excluded. At the close of an accounting period, the real accounts are the basis of the statement of assets and liabilities.

CHAPTER VII

STATEMENT OF PROFIT AND LOSS

41. Statements of Profit and Loss. Any increase in the net worth of a concern realized from sources other than proprietorship investments, is classed as net income or profit. Thus, if the net worth on a certain date is $25,000, and on a following date, is $30,000, the difference, $5,000, if it is not additional investment, is the income, or profit, of the intervening period of time. The simplest way to find the amount of income for a period of time is to compare statements of assets and liabilities dated at the beginning and the close of the period. In preceding chapters, general rules have been given for making statements of assets and liabilities, or balance sheets, suitable for comparisons of this kind. The real accounts must be kept so as to occasion no false impressions as to the actual additions to or subtractions from the net worth. The real accounts, however, do not show by what means the income is brought into the concern. They show merely, when summarized in comparative statements, the bare fact that the concern on a given date shows more or less net worth than it did before. If the concern stands better, the increase must be the result of business operations or circumstances that the proprietor should find worth while to consider in more detail.

Further information explaining the elements of income of expense is summarized in a statement of profit and loss. In this statement the financial weight of the various activities of business are reflected. A name is given to each element of income under which the amount flowing into the concern is credited; likewise a name is given to each element of expense under which the amount flowing out of the concern through that channel is debited. These descriptive names are the headings of "nom-

inal'' accounts which are carried in the ledger as a current statement of profit and loss, or income.

Note.—A statement of incomes and expenses is usually called a "profit and loss statement" or a "loss and gain statement" when it refers to the operations of a trading or manufacturing business. However, the heading "statement of income," meaning a statement of all elements entering into net income, is not out of order in this connection.

Annual statements of income are now demanded by the government from all citizens whose annual net income or profits exceeds a specified sum. These statements must be made, regardless of what books are kept. The distinctions made in them relative to sources of income are of interest as indicating to some extent what nominal accounts should be kept in a ledger and how they should be kept. But the income statement demanded by the government does not indicate all the accounts desirable in business, for the purpose of the government is to make only such rules as are necessary to arrive at the taxable income, while the business man has the additional purpose, that of discovering how he may increase the earnings of the business and how he may reduce unnecessary expenses.

42. Period Covered by Statement. A statement of income, or profit and loss, refers to a definite accounting period. One year is the time commonly covered by this statement. But a monthly statement is a common thing in some businesses, and a daily statement, or report, covering the same matters of information, is also used where the nature and magnitude of the business makes frequent reports desirable.

It is well to note that the income from a given source is not necessarily confined to the money received from that source during a given period. Thus, a house may be let at a rental of $600 per year, or $50 per month. Assuming that only $400 of this rental has been collected during an accounting year and that the remaining $200 is collectible, the income from the house would be the entire $600 earned, although only part of it has been received. Accounts of income do not necessarily show cash

collected, but are quite likely to include cash to be collected as well.

The expenses of a period are not necessarily identical with the cash actually paid out for expenses. Thus, in the last month of an accounting year a premium of $60 may be paid for one year's insurance. Assuming that only one month's insurance cost, or a twelfth of the whole, applies in the accounting period, only $5 of this total payment should be included as an expense of that year.

In a recent government form for income tax returns of individuals is the following instruction: "If you keep books showing income accrued, you may report such income instead of cash received, and you may also report expenses incurred instead of expenses paid."

It makes little difference to the government in the collection of taxes whether the percentage is based on the one or the other, for either plan will include in the second year what was omitted in the first; but it does make a difference to the business man whether he bases his income calculations on the amounts earned or on the amounts collected. For accounting purposes, the income earned, whether fully collected or not, and the expenses incurred, whether paid for or not, are to be considered the incomes and expenses of a given period. By this means only can the totals be kept in condition for percentage comparisons.

43. Income and Profit. A concern may profit (1) from the "primary incomes" which flow in as a result of the ordinary operations of the business; (2) from the "secondary incomes" which flow in as a result of business activities or investments not essential to the plan and purpose of the business; and (3) from irregular or accidental sources.

The first requirement of a profit and loss statement is to exhibit the primary income as separate and apart from the other sources of profit, since the success of the business, as such, is measured by the primary income. The object of a business undertaking is to sell some speci-

fied line of goods or service, hence the primary income is the proceeds of the sales of the regular stock in trade. The thing sold may be merchandise in a trading or manufacturing business; land in a real estate business; produce or live stock in farming; transportation in railroading; light, heat, power, water, telephone service in public utility companies; labor or service by the individual, etc. Whatever the concern sells in accordance with its plan of organization or purpose, is called the "Sales" of the business; or a modifying word may be used, as merchandise sales, produce sales, light sales. Sales may be divided in one concern; as, grocery sales, meat sales, and bakery sales.

The sales of goods is the principal source of income in most businesses, such as trading, manufacturing, and farming. For this reason, the manner of arriving at the income from dealing in goods is referred to here.

The first item in the statement is the total amount of sales; or if any allowances have been made for returned goods or other reasons, the first item will be the total amount of sales less allowances. This amount is placed in the right hand column of a two-column statement, or on the right hand page of a two-page statement.

The second item is the cost of the sales, placed in the left column as a deduction. The cost of sales is ordinarily found by adding to the inventory of goods at the beginning of the period the purchases during the period, and from the sum deducting the inventory at the close of the period, leaving as a remainder the cost of sales. The cost of sales deducted from sales leaves, as a remainder, the gross trading profit, which is the principal income of the business. This gross trading profit is entered as a balance, the statement is ruled and the gross trading profit is carried down to a second section of the statement.

After the gross trading profit, or principal income, of the business is carried down, secondary incomes, and miscellaneous gains may be itemized in the statement and the amounts carried to the right hand column and

added to the principal income, while the expenses are itemized to the extent desired, and carried to the left hand column as deductions from total income. The second section may then be balanced, showing a net profit remainder. Where additional profits consist of a number of items, or where the expenses are divided into several classes, the additions and deductions may be entered in several sections, each of which explains some special phase of the business operations, as will be referred to in detail later. But the main point to be made is that having obtained the gross trading profit, the income is reduced, step by step, until the net business profit is found.

44. Losses are expenditures which result in a diminishment of the assets of the business. They are divided into (1) expenses; (2) unclassified losses.

Expenses are the outlays for things to be consumed in carrying on the business. Such outlays may be for rent, light, heat, insurance, interest, taxes, hired help, and like things; also for such property as coal for fuel, office stationery, office blank books, and such other things as would be consumed within the accounting period, or, if lasting over, would be so impaired by use as to be unsalable.

Unclassified losses arise from irregular causes, such as theft, gifts, fires, accidents, or speculations.

43 A. Expenses Divided. The term, Expense, without any qualifying word, means a loss expenditure of the business as a whole. If there is no reason to make any distinctions, all such expenditures may be grouped under the one heading. Expenses are divided, however, to a greater or less extent, as serves the purpose, on two general lines:

(1) to show, for comparative purposes, the cost of different kinds of services, as suggested by the following classifications: Building Expense, Salaries, Delivery Ex-

(2) To show the cost of the expenses grouped as charges applying to some specified activity of the busi-

book; so that it is not necessary for the depositor to

ness. Thus, a manufacturing concern may divide the expenses into Manufacturing Expense, Selling Expense, Administrative Expense, Capital Expense. These several divisions are debited, to show, as separate items, the expenses connected with making, selling, managing, and securing capital, although the sum of all is a charge against the entire income of the business.

45. Statement in One Section. The simplest income, or profit and loss statement, contains one general section in two columns—the right for incomes and gains of any nature; the left, for expenses, or losses of any nature. The statement is closed by a balancing entry which shows the excess of the opposite column, resulting in a net profit or net loss.

Model Form 10 R shows the arrangement. In this very simple exhibit, Charles Burton shows that at the date of statement he has earned an income of $26.70, entered in the column to the right. During the same period his expenses were $21.95, entered in the column to the left; resulting in a net income, or profit, of $4.75.

The more extensive and diversified the business, the more occasion there is for dividing the profit and loss statement, so that there are statements of two, three, and more sections. Statements of two or more sections are discussed in the following numbers.

46. Statements in Two Sections. When two sections are used, the first section exhibits the items comprising the primary income. The net result of the first section is carried down and united with items of a general character, closing by a balance showing the net profit or loss.

Form 12 N is a good illustration of a two-section statement for a trading business. In the first section, right hand column, is found the amount of sales. In the same section, left hand column, is the cost of the goods sold, explained by some computations showing the means for arriving at the cost. The balance is carried down and united with other incomes and expenses of a general character, resulting in a net profit balance.

Compare with Form 9, on which the annual incomes and expenses of a salaried man and general investor are combined in a profit and loss statement. The first section contains items that have a bearing on the net amount taxable under the Federal Income Tax Law. The result is a balance of $2512.10, which is carried down to the second section.

In the second section are the expenses which are not deductible from income for taxation purposes, but are of interest to the householder in making up his annual personal expense budget.

47. Statement in Several Sections. When goods are manufactured by the concern selling them, a manufacturing statement or manufacturing section of the profit and loss statement is necessary in order to exhibit the cost of the product. This manufacturing section may be placed first for convenience, although a statement of profit and loss logically begins with the amount of the principal income from which are deducted successively the cost of goods sold, the expenses of selling, the expenses of management, and finally the expenses of capital, together with miscellaneous gains or losses.

Form 6 illustrates the divisions. In the first section (6 A) the cost of the several items entering into the manufacture of flour are added together, deductions are made, showing that the cost of making the product of that year was $45,934.78.

The second section (6 B) begins with net sales, and after deducting the cost of sales, leaves a remainder of $13,705.70, called the gross trading profit, or income.

In the third section (6 C) the gross trading profit is carried down, to be diminished by the selling expenses, leaving as a remainder $7416.40 to be carried down as net trading profit.

In the fourth section (6 D) the net trading profit is further diminished by managing expenses, leaving a remainder which is carried down to

The fifth section (6 E), where it is increased or diminished by secondary incomes and expenses, leaving the net profit for investors as the final result.

The form here explained permits of percentage comparisons which are very valuable in themselves. It also gives information as to the profit of the business operations as apart from incidental or accidental gains or losses which are not necessarily connected with the operations of the business.

48. Departmental Statement. Where a business is divided into selling departments, the goods for sale are entered by departments and charged as though each department were a separate store. The total sales of each department are exhibited as separate items and the expenses are likewise allocated, resulting in a separate profit and loss statement for each department.

Form 18 C illustrates a departmental statement. There are six departments, numbered from 1 to 6. The totals of sales, cost

of sales, and expenses for the entire store are given in the first column, and following it, the figures that make these totals in the several departments. The result shown is the entire gross profit or loss, and the net profit or loss, both for the concern as a whole and for each department separately.

49. Relation of P. & L. Statements to Ledger. The profit and loss statement is a financial summary of business operations taken from records. Its practical purpose is to point out the business activities that brought profit and the business necessities that caused loss. The more clearly these elements are separated and compared, the better able is the management to guide the business into profitable undertakings.

The section of nominal accounts in the ledger may be regarded as the current profit and loss statement. It contains the accounts preferably arranged and divided with reference to the items in the statement. At the beginning of an accounting period all nominal accounts are started anew, for a new financial record of business operations is to be entered upon. The manager of the business endeavors to increase income and to cut down unnecessary expense. His success in doing so is shown by the amounts posted day by day to the nominal accounts. At the close of the accounting period the nominal account balances are transferred to the profit and loss statement, where they are rearranged, condensed and divided in the order and manner thought most illuminating. At that time, all nominal accounts, having served their purpose, are closed. In a following accounting period, the nominal accounts are opened anew, and continued until they are again summarized in a succeeding profit and loss statement.

50. Illustration of Profit and Loss Statements. In order to illustrate the general resemblances in the statements of profit and loss for representative kinds of business, and to draw general distinctions between them, we refer, in the following paragraphs, to model statements suitable for the following enterprises that have to do with a loaf of bread from the time the flour is made to the time when the bread appears on the table. The lines

of business involved are: (1) milling; (2) transportation; (3) wholesaling; (4) retailing; (5) household; (6) banking.

The student will bear in mind that the business statements used for illustration can be made only from carefully kept business accounts. Yet any business man, whether he can keep books or not, should be able to read and understand the points to be looked for in a business statement.

Form 6. The statement here given is that of the miller who converts the wheat into flour. This is a manufacturing business, and the results of the bookkeeping for a year should be condensed into a Profit and Loss statement similar to the given form. Note that the first section gives in general items the costs entering into the production of flour and other output. These costs are taken from a complete record of the payments and expenses, the total of which constitutes the "cost of product."

The trading section shows that there was billed out during the year, mill product valued at $53.887.74, but that the mill took back product amounting to $2,959.66, leaving net sales $50,928.08. The cost of these sales is found by adding to the inventory at beginning of year, $10,583.26, the cost of the year's product, $45.934.78, and from the sum, deducting the inventory of stock on hand, $19,295.66, leaving $37,222.38, the net cost of the product sold.

The difference, or gross trading profit, $13,705.70, is carried down to the next section. Against this are entered selling expenses, office expenses and capital expenses, given in some detail.

The final result, after all deductions, is the "net profit for investors."

Form 7. The railroad, which carries the flour to the wholesale house, secures its profit from carrying passengers, freight, express and mail. The original accounts of income and expenditures in a large undertaking of this kind may number 200, more or less, but these several accounts are brought together into general accounts, of which the items in the statement are representative. First, are listed four items of revenue; the first is from ticket sales; the second from freight charges; the third, from an express company for carrying express; and the fourth, from the government for carrying mail. These combined produce the gross earnings which are carried down to the next section.

Against the gross earnings are charged five general divisions of operating expenses.

A proper understanding of the operating expenses necessitates some knowledge of railroading. Under the regulation of railway accounting through the Interstate Commerce Commission, each of the five items represents a definite kind of charges applying to all roads. For example, the first expense, Maintenance of

Right of Way and Structures, represents a group of over twenty separate charges; among these are, cost of repairing and replacing ballast, ties, rails, bridges, buildings, etc. The fourth expense, Transportation Expenses, include about fifty primary charges, among them fuel, water, lubricants, wages to conductors, brakemen, switchmen, telegraph and telephone operation, etc.

After deducting operating expenses from the gross earnings, there remain the net earnings which, in the following section, are diminished by the capital charges. The item, "Interest on Bonds," in this group, arises from the fact that a large part of the capital of many railroads is provided by the sale of bonds on which interest must be paid periodically.

This profit and loss statement for a railroad is referred to as a representative statement for a service business, and may be adopted for any other service business, such as stables, garages, hotels, repair shops, gas or electric light and power companies, educational institutions, etc., the titles for sources of income and for operating expenses being varied to suit the business.

Forms 12 N and 8. The statements of profit and loss for trading business here given are typical for wholesale and retail trading business generally, and may be in more or less elaborate form. The statement may be written on a single page (like Form 12 N) or on two opposite pages like Form 8, depending on the amount of analysis thought desirable.

In Form 8, the first section, 8 A, shows the sales for the period, diminished by the cost of the merchandise sold, leaving as a remainder the gross trading profit. This section is of the utmost value, as from it may be taken the volume of business, and the per cent of gross profit.

The second section, 8 B, shows the gross trading profit, diminished by selling expenses, leaving net trading profit.

The third section, 8 C, shows net trading profit diminished by office or administrative expenses, producing the business profit.

The fourth section, 8 D, shows the business profit diminished by capital expenses, or the expenses of borrowing, and maintaining the value of capital accounts. The remainder is the net profit for distribution.

Form 9. In the household profit and loss statement, there appears first a list of the incomes and profits received from various sources. The item, "5th Ave. Property," shows the rents received, diminished by the expenses for maintenance of the property. The net income is carried to the second section.

From the net income are taken the current expenses divided into such special accounts as desired, leaving net profit or deficit for the year.

Form 7 D. The bank statement of profits and losses is the simplest of all. As shown from the first section of the statement, the profits are derived from, (1) interest on the money loaned to customers; (2) exchange on drafts sold to customers who buy drafts for remittance; (3) interest on bonds or other securities owned by the bank; (4) charges for collecting paper for cus-

tomers. The losses are, (1) salaries paid to the working force of the bank; (2) interest paid to certain depositors who leave money at interest; (3) general expenses, including cost of books and stationery, heat, light, rent, insurance, etc.

The second section shows the distribution of profits into two reserve accounts, and the remainder paid as dividend to the owners.

Recapitulation 41-50. The profit and loss statement of a business is derived from the accounts that show the incomes and expenditures of the business operations, covering a definite period of time, called the accounting period. In a typical profit and loss statement, the leading section exhibits the income derived from the ordinary business operations, diminished by the direct cost of producing any utilities sold. This section thus exhibits gross business profit. The gross business profit is diminished by selling, administrative, and capital expenses, and increased by capital earnings, if any. The result is an exhibit of the net profit for distribution.

The detail to which the various items of income and expenditure given in the statement may be carried, depends on the amount of information sought, but, in the typical statement, shows the following distinct items of information: (1) the gross volume of business and the gross profit in the form to derive the percentage of profit; (2) the cost of securing sales; (3) the cost of supervision; (4) the cost for capital, and the profit from surplus capital; (5) the net profit for distribution.

CHAPTER VIII

NOMINAL ACCOUNTS

51. Nominal Accounts have descriptive names for headings, to indicate the operations or conditions that result in profit, or in loss. The ordinary sources of income and of expense are named by a practically standard set of account titles. But one business is likely to develop at one point or another in ways out of the ordinary, and will need distinctive nominal accounts by means of which to locate unusual incomes and profits or unusual expenses and losses. Rules for the use of standard nominal accounts and principles covering the introduction of special nominal accounts are discussed in this chapter.

52. Income Accounts. All incomes of a concern may be credited in an account headed, Income (see Form 10 1). The credits in this account serve to specify the income amounts added to the assets. If all income is from one source, a man's salary, for instance, the single account would be satisfactory; but as soon as it is worth while to examine into several sources of income, it is desirable to use several income accounts instead of the one general account. For example, the ordinary income of a railway company may be shown in four accounts: Passenger Earnings, Freight Earnings, Express Earnings, and Mail Earnings; or, the income of an individual may be shown in such accounts as Salary, Interest on Money Loaned, Rents from Property, Dividends from Stocks, and Miscellaneous Profits.

In the above examples, the several accounts would be credited with the amounts as received, item by item, until, at the end of the accounting period, the totals from the several sources are shown.

The income accounts may be divided and subdivided to the extent found necessary for full information as to

the sources of profit. A few headings for income accounts, suggestive of headings that might be used, follow:

Wages, earnings of a person, usually computed on work by the day.

Salary, earnings of a person for personal service rendered for a period of time.

Attorney's Fees, earnings of a lawyer for legal counsel.

Livery Hire, earnings of a liveryman for use of vehicles.

Light, earnings of a light company for furnishing light.

Lodging, earnings of a hotel for the use of rooms.

Passenger Earnings, earnings of a railroad for carrying passengers.

Cartage, earnings received by a dray line for moving goods.

Collections, earnings received by a bank or person for collecting paper.

Commission, earnings of a commission merchant for selling another's goods.

Trading, earnings of a merchant or dealer for collecting and distributing goods.

After the titles of the income accounts are determined, such accounts receive credit from the books of first entry, for the income as earned, and are debited for any deductions from such earnings. At the close of the accounting period, the income accounts are closed and the balances carried to the credit of Profit and Loss. (See Form 10 M closed directly into Form 10 O; or 12 S closed by journal entry, 12 O, into 12 V.)

53. Expense Accounts. All the loss expenditures of a concern may be debited in one account headed Expense (see Form 10 J). Thus, expenditures for rent, light, heat, insurance, taxes, supplies, salaries, wages, interest, and other things consumed may be debited to expense; also depreciation, or loss in value of the business property through use. Expense covers the value of things

consumed by the business. The debits in this account specify the amounts withdrawn from the assets.

The Expense account may be divided, according to the needs of a business, into several accounts. A separate expense account should be opened whenever it is necessary to inquire closely into any one kind of loss expenditure. A small retail dealer may find it advantageous to keep special accounts of Delivery Expense, Freight In, Interest Expense, grouping all other expense items under the heading, General Expense. A manufacturing concern may classify expenses in ten groups, distributing the items under separate account headings, such as Building Expense, Labor, Power, Depreciation, Repairs, Supplies, Salaries, Insurance, Taxes, and Miscellaneous Expenses. A railroad, in order to watch carefully each class of the great variety of things consumed, uses between 200 and 300 expense accounts.

In finding the total expense loss of a given accounting period, it may be that some things charged in the account have not been used during that accounting period, but are carried over for use in the period next following. For instance, a winter supply of coal purchased in the fall and charged to Expense may be only partially consumed on December 31, when the books are closed. The value of the unconsumed portion, as well as the value of any other items charged but not used, should be credited in the Expense account as a deduction from total expenses of the period covered. Occasionally, articles charged to expense are sold. In that case, the Expense account is credited with the amount of the sale.

The General Expense account is closed into Profit and Loss at the close of the accounting period. (See Form 10 N closed into 10 O.) But when expenses are divided on the basis of operations, they are not always closed directly into Profit and Loss, but may be charged to the business operation involved, as discussed in Prin. 54.

54. Charges Against Operations. Certain loss expenditures are not closed directly into Profit and Loss at

the close of an accounting period, but are debited to an Operative account, to which they directly apply.

54 A. Expense of Income Bearing Property. If a concern owns a building which is let to a tenant, the expenses for the upkeep of the building would be a charge against the rent income from the building. In Form 11 F, an account of the income from a property owned by a concern and carried in the books under the heading "Lot 8, Blk. 3 of Conrad's Addition," is credited to show the rent income, and debited to show the expenses of that particular piece of property. The account shows, as a result, the net income from that property, which is to be carried to Profit and Loss instead of carrying the total income as a separate credit and the total expense as a separate debit. Any income bearing property, that is, property not used by the concern in its regular business but by another for a compensation, should show the net results of an Income and Expense account, separate from the Investment account.

In entering the expenses of a property, such items as repairs, renewals, depreciation, and commissions paid to a renting agency are to be debited against the income, together with interest on any loans against the property and ordinary taxes thereon.

54 B. Expenses of Speculations. When any property is purchased purely for speculation, as a tract of land bought and held for sale, the original cost and all expenses are, as a rule, debited in one account as a charge against the proceeds of the contemplated sale. But should the property change from a speculative venture to an income bearing investment, it would be advisable to divide the account, carrying the investment as an asset, and the income and expense pertaining to it in a separate nominal account.

A course followed by conservative real estate companies and highly commended by accountants, is to charge the expenses of tracts of land which they are preparing for sale to Expense accounts separate from the

Property accounts; so that the expenses, instead of being "capitalized," are closed into the Profit and Loss account of the year in which they occurred. When so done, a memorandum entry of the expenses is made in the Property account for convenience in determining the entire amount of money placed in the venture.

54 C. Freight and Transfer Charges In. The freight charges on goods, materials, or equipment bought are chargeable to the same account as the thing bought. Thus, freight on merchandise purchases is debited to the Merchandise Purchases account, on materials to Materials account, on furniture to the Furniture account, etc. A separate account of Freinght-in is often kept and debited for all expenditures on incoming freight, but should be closed later into the accounts to which the specific items apply.

54 D. Freight-Outward. An account of freight on sales is to be handled in one of two ways: (1) If it represents freight prepaid and charged to the customer in his bill—a custom in many houses—the amount of freight-out is credited in the Trading account as sales. (2) If it is prepaid but not charged to the customer, that is, if the prepayment is a selling inducement to the purchaser, the account is treated as a selling expense.

54 E. Expenses of Shipments. When goods are sent to commission houses for sale on account of the consignor, the shipping, insuring, and any incidental expenses connected therewith are debited to the Shipment account, together with the cost of the goods sent. All expenditures connected with the shipment are treated as one combined charge against the proceeds of the sale.

54 F. Expenses of Departments. When business is departmentalized, the expenses should be charged to the consuming departments instead of to the organizations as a whole. Thus, in a department store, which may have all the way from two to two hundred departments, selling as many kinds of merchandise, each department or department group is under a manager, or buyer, who is

responsible for the success of his department. Each department is charged for all expenses incurred for its maintenance, including its share of floor space, light, heat, salaries, advertising, depreciation, stationery, etc.

A branch store is similarly conducted by a manager, and the expenses are included in a separate expense account for that store.

54 G. Expenses of Manufacturing. Manufacturing expenses include all the items of loss expenditures involved in making goods, except the cost of material and productive labor. The expenses of making are, of course, distinguished from the selling and general expenses of the business, the first mentioned only being considered manufacturing expense or, as the term is often used, "factory overhead," or "burden." These expenses include the rent and upkeep of the shops and storage space where the work is done, the nonproductive labor of stock keepers, watchmen and other employees, power, depreciation on factory machinery and equipment, repairs, factory supplies, salaries of factory officers, insurance, taxes, etc.,—in fact all expenses incurred in making goods, as opposed to the expenses incurred in disposing of the goods after they are made. Manufacturing expenses are charged as a part of the cost of the manufactured articles and therefore are treated as assets and not as losses.

55. Gross Trading Profit. Buying and selling goods is the principal activity of the trading business and the principal source of income. For this reason, the business man should watch closely as separate items (1) the amount of sales as shown by the Sales account, (2) the amount of purchases as shown in the Purchases account, (3) the amount of capital tied up in this activity as shown in the Inventory account. In the absence of a unit cost system, which is impracticable in handling the many small articles sold in retail stores generally, the three accounts mentioned are combined, at the close of an accounting period, in a Trading account, the purpose of which is to show the gross income, or profit, from buying

and selling. These accounts are carried and closed as explained in the following numbers.

55 A. Sales. The Sales account (Form 12 Q or 14 G) is credited to show the amounts of trading goods sold, as found in the sales records; is debited, to show any rebates, allowances, or deductions which diminish the amounts received, or to be collected, from the sale of goods.

By "Sales" is meant the sales out of the stock in trade only. Any chance sale of fixed property or expense material should not be included in the Sales account, but should be entered as a separate item.

At the close of the accounting period, the account is closed and the balance is carried into the Trading account.

55 B. Purchases. The Purchases account (Form 12 R or 14 H) is debited to show the cost of trading goods bought; is credited, to show any rebates, allowances, or other deductions from the amount paid, or to be paid, for the trading goods bought.

Included in this account are the invoice cost of the goods, the freight and transfer charges in, storage and warehouse charges, import duties, or other expenses attached to the goods before they are placed in the sales stock.

At the close of the accounting period, the account is closed and the balance is carried to the debit of the Trading account.

The invoice purchases, freight-in, and returned purchases, are sometimes carried under separate headings, but these divisions of the Purchases account close into Purchases, or into the Trading account which amounts to practically the same thing.

55 C. Manufactured Goods. When the goods sold are manufactured instead of being purchased ready made, the cost of material, labor, and expenses of making are ascertained and debited in an account headed Manufactured Goods, or Finished Goods, or Completed Prod-

uct, which is related to the Sales account in precisely the same way as Purchases.

55 D. Inventory as Related to Trading. If there were no stock in trade at either the opening or the closing of the accounting period, the Purchases account would show the cost of the goods sold, and when subtracted from sales would leave the gross trading profit. In a going business, however, there is stock on hand at the beginning and also at the close of the accounting period. If the stock at the beginning is greater than the stock at closing, the difference has passed out and should be regarded as an addition to the amount of purchases in the Trading account to show the entire cost of the goods sold. If the stock on hand at the beginning was less than the stock at closing, the difference represents purchases that have not been sold but are carried by inventory over into the next accounting period.

In order to take into account the increase or decrease in stock of goods, it is customary to close the amount of the inventory at beginning into the Trading account (debit side), thus adding the beginning inventory to the purchases. The amount of the inventory at the close of the accounting period is entered in the Trading account (credit side), thus adding the amount to sales. In the trading statement, as before explained, the opening inventory, plus purchases, less closing inventory, leaves an amount called the "cost of sales." The Ledger account does not lend itself to both addition and subtraction in the same column, hence the same effect is secured by adding the closing inventory to the credit side instead of subtracting it from the debit side.

At the close of the accounting period, the Trading account is closed into Profit and Loss.

56. Selling Expense includes the outlays made in effecting sales of the trading goods from the time the goods are laid down in the store, until disposed of. It is often best to charge all selling expenses to one account, while under some conditions, a number of special divisions will serve the purpose better. Among these are

(1) Salaries of sales manager and sales clerks; salaries, commissions and road expenses of traveling men; salaries and wages of shipping clerks; (2) Cost of free samples and expenses of demonstrations, exhibits, etc; (3) Advertising, including postage and expressage applied to advertising; (4) Supplies, including cartons, wrapping material and incidentals; (5) Delivery expense (not charged to customers); and (6) Depreciation (in property used by the selling department).

Such special accounts are to be opened as they are needed to give detailed information about this class of expenditures, and are to be discontinued when they are not needed.

At the close of the accounting period, the special accounts are closed into Profit and Loss, or they may be closed into the general Selling Expense account which, in turn, is closed into Profit and Loss.

57. **General Expenses,** or General Overhead, includes the expenses of the general oversight and management of the business, and may be charged to either of the foregoing titles, or may be charged to various special accounts, such as: (1) Salaries of the office force; (2) Office Supplies, including blank books, stationery and postage, not directly applied to advertising; (3) Light, Heat, Rent, Taxes and Insurance; (4) Depreciation, in property for office use; (5) Interest and Discount.

Such special accounts may be closed directly into Profit and Loss at the close of the accounting period, or they may be closed into Office General Expense, which in turn is closed into Profit and Loss.

58. **Diminishment** in the value of things owned by a concern is to be included among the expenses. This factor bearing on income is not brought to the attention by business transactions, and unless looked for in a systematic way will be disregarded often with disastrous results. Included under this heading are: (1) Shrinkage in value of accounts and notes receivable due to certain items becoming uncollectible or doubtful; (2) Depreciation, the ordinary loss in value of fixed property assets

through wear and tear or obsolescence; (3) Expiration of the benefits of patent rights, copyrights, franchises, patterns and drawings, etc.; (4) Depletion, the exhaustion of resources such as mines, timber, or land through cropping. The diminishment in the value of assets during an accounting period is a real subtraction from income.

58 A. Shrinkage in Accounts and Notes. The loss sustained through accounts and notes becoming doubtful or uncollectible is probably best taken care of, in ordinary books, by charging the accounts to Profit and Loss. If bad accounts are few in number, and are to be followed up as though collectible, they may be plainly marked, "charged to Profit and Loss" so as not to be included in a list of accounts receivable, and otherwise left in the ledger as before. The collection of any such accounts should be credited to Profit and Loss.

Where there are many such accounts, to be considered separately, they may be removed to a "doubtful ledger," after being charged off, and there kept as a memorandum record.

If an estimate of the loss through doubtful accounts is made, as when one considers a number of doubtful accounts to be worth on the whole one-half their face, the assumed shrinkage may be charged to Profit and Loss and credited to Reserve for Doubtful Accounts.

58 B. Depreciation. The loss in the value of buildings, machinery, and equipment through depreciation should be debited as an expense of factory, office, or any part of the business making use of the property. The balancing entry is a credit to an account headed, Reserve for Depreciation, as explained in Prin. 24.

No standard tables of depreciation appear to have been made, since the term of usefulness of property depends on what it is and how it is used. The government income tax instructions seem to set a maximum of three per cent annually on buildings and ten per cent annually on machinery.

If an account of Depreciation is carried, all deprecia-

tion is first debited in that account and then credited out by distribution to the expense accounts.

58 C. Expiration. Patent rights expire in seventeen years, copyrights in forty-two years, and franchises according to terms granted. Their commercial value, however, frequently expires long before the legal expiration. The book value of these items should be written off proportionately year by year by a debit to Profit and Loss, with a view to finally clearing the accounts from the books. The credit is most clearly shown in the Asset account, since there is no reason for setting up a reserve for something that is not to be replaced.

58 D. Depletion. The value taken from mines, quarries, timberland, etc., does not call for any Reserve account, since the property consumed is not to be replaced; but as in the case of expirations, should be credited in the asset account, the balancing debit being in Profit and Loss.

59. Secondary Incomes and Expenses arise from the use of money or property or from operations in other than the regular channels of the business. In the preceding numbers of this chapter have been outlined the accounts showing in consecutive order Sales, diminished by Cost of Sales, further diminished by Selling Expenses, and the remainder by General Expenses, the final result being the Business Profit.

In addition to the principal operation of the business reflected in these accounts, the concern may derive income or incur expense in a number of ways, as shown in the following accounts:

59 A. Interest and Discount. An account headed, Interest and Discount, or Interest, is debited to show loss expenditures for money or credit received by the concern; credited, for income from money or credit given by the firm.

The discount referred to is the interest charged by bankers for discounting notes or accounts.

The Interest account is often better divided into Interest Expense and Interest Income.

59 B. Cash Discounts. An account headed, Cash Discounts, or Merchandise Discounts, is debited, to show amounts allowed customers for settlement of invoices within a specified time; credited, to show the deductions from creditors' invoices for payment within a specified time.

This account is frequently divided into Sales and Purchase Discounts. It is quite customary in retailing to credit purchase discount to the Purchases account, especially in department stores where discounts received are considered as a credit to the management of the buyer, hence a deduction from Purchases rather than as secondary income. In wholesaling, cash discounts are generally treated as secondary incomes or expenses.

59 C. Income and Expense of property owned by the concern but not used in the business is classed as secondary income.

59 D. Miscellaneous Profits and Losses. Theft, loss of money, fire losses, gifts, gains or losses on sales of fixed property, and other unusual losses or gains are sufficiently well located if debited or credited directly in the Profit and Loss account when they occur.

60. The Profit and Loss Account is the permanent ledger record of the incomes or profits (credit side), and the expenses or losses (debit side), accumulated during the accounting period.

Unclassified gains or losses are carried directly to this account from the original entries, so that the Profit and Loss account is, up to the time of closing the books. a current list of the odds and ends of gain and loss arising from unuausl channels. This part of the account, on occasion, may be separated from the closing Profit and Loss account by being carried in a current account entitled Miscellaneous Losses and Gains, or Loss and Gain, which at the close of the period should be closed into Profit and Loss.

The regular income and expense accounts, that is, all nominal accounts, should be closed into Profit and Loss at the end of the period. After all nominal account balances are found in Profit and Loss, this account is balanced and the balance disposed of as follows:

(1) In a sole proprietorship, the balance may be carried to the Capital account, or, if the capital is to remain at a stated amount, to the proprietor's Drawing account.

(2) In a partnership, the balance of the Profit and Loss account is divided among partners in accordance with their terms of agreement, and carried to their Capital or Drawing accounts as in the case of a sole proprietorship.

(3) In a corporation, the balance is carried to the Surplus account, provided there is a surplus; if not, to a Deficit, or Assessment account.

Having closed the Profit and Loss account, all nominal accounts are closed and completed. The results exhibited by them are summarized in the accounts of net worth.

Recapitulation 51-60. The nominal accounts, kept to indicate the operations or conditions that have resulted in profit or loss, are divided into accounts of income and accounts of expense. Income accounts are credited to explain increases in the net assets; Expense accounts are debited to explain decreases in the net assets.

The expenses of specific business operations are charged against the income from the operations, leaving a balance which at the end of the accounting period is carried to Profit and Loss.

General Expense accounts close directly into Profit and Loss.

Incidental or unusual gains or losses are posted to Profit and Loss from the original entries.

When all nominal accounts are closed into Profit and Loss, the latter account shows, as credits, all profits and as debits, all losses, of a given accounting period. The balance of the Profit and Loss account is closed into the accounts summarizing the net worth.

PART TWO—RULES

CHAPTER IX

SINGLE AND DOUBLE ENTRY

61. Single and Double Entry. Bookkeeping systems are known as single entry and double entry. Several points of difference between the two are discussed under Auditing; a practical distinction is referred to here.

Single Entry. By single entry there is usually attempted a record of three kinds of accounts only—the Cash account, Accounts Receivable, and Accounts Payable. Hence, an entry is made with a view to the effect of transactions on the three elements of the concern mentioned regardless of other elements of the concern for which no accounts are kept. This implies an entry, either debit or credit, for only one side of a transaction, disregarding the other side—hence single, or one-sided, entry; but in single entry a debit is made in Cash and a corresponding credit in a customers' account, being double entry to that extent. A "single entry" system seems to be any bookkeeping system that falls short of double entry.

Double Entry. In double entry bookkeeping, an attempt is made to keep accounts of all elements involved in all transactions. The effect of any transaction is shown by debit entry in one or more accounts, and credit entry in another or other accounts. Both debits and credits are entered—hence "double entry." The equality of debits and credits in each transaction is followed by equality of the sum of all debits and the sum of all credits after posting. This makes possible the proof of accuracy by trial balance, which is impossible in single entry.

The mere fact that every debit entry must have a corresponding credit entry, gives the bookkeeper occa-

sion to look into the debit and credit elements involved, transaction by transaction, thus stimulating inquiry into the forces that contributed to the success of the business. Double entry does not necessarily imply an effective account classification, but it does necessitate some sort of attention to all the elements of property and operations. And it is on the values within a business concern as shown by the accounts, and their relation one to another, that the manager must depend for an effective use of the resources at his command.

In the study of bookkeeping as a science, single entry is given but limited attention, not because it is useless, but because double entry is more comprehensive. It must be kept in mind, however, that such accounts as are kept in single entry are kept in precisely the same way, and mean precisely the same as though found in double entry. Many business men, especially in small concerns, may find that a few accounts are desirable, and can be kept in memorandum form by a person who would find it difficult to use a double entry system properly.

CHAPTER X

BUSINESS PAPERS

Business Papers. The first records of business transactions are usually made on business papers, partly printed and partly written. These forms pass between the parties to the transactions. Thus, when goods are sold, a bill or invoice, naming the terms and listing the things sold with prices and amount, is passed by the seller to the buyer. If one makes a cash payment, the person receiving the payment should give the payer a receipt. Transactions sometimes occur without a written form passing between the parties, but this is not the rule. The papers that give the particulars about transactions are used as vouchers by the bookkeeper in making his records. A voucher is a written evidence of a transaction. After the entries are made, the vouchers should be preserved for future reference.

In the following numbers, Prin. 62-69, forms of business papers, many of which are used as vouchers, are discussed.

62. Forms Used in Banking Transactions:

Signature Card (Form 15 A). When a depositor opens an account with a bank, he is required to write his signature on a signature card or in a blank book provided for that purpose. Depositors' signatures are kept where the paying teller may quickly refer to them for comparison with the signatures on the depositors' checks, when checks are presented for payment. A depositor should write his name in his ordinary, plain hand writing without attempt at peculiarity in style. In signing his checks he should make no variation in the form of his signature. While a teller is responsible to the depositor for the genuineness of the signature on the checks which he pays, the depositor is responsible for delays or losses occasioned by signing checks in an

unusual form or handwriting. A teller is justified in refusing a check, even though genuine, when the signature shows any material variation from the signature as filed with the bank.

Deposit Tickets (Form 15 B) are provided by the banker. On these the depositor enters the amount to be deposited. On making a deposit, the bills should be face side up, all bills of the same denomination being placed together. Coin in any quantity should be brought in a sack. The deposit ticket and the currency are passed to the teller. The form shows the deposit made up of currency, coin, and other cash items. When a great many items are included in a deposit, bankers prefer, and sometimes insist, that they be entered on the ticket in considerable detail.

Depositors' Pass Books (Form 15 C). On receipt of the first deposit, the teller opens a Depositor's Book, which he delivers to the depositor. This is a book to be carried by the depositor, and presented by him to the bank teller with his deposits. The teller enters each deposit in this book, when made, in the proper columns to show the date, explanation and amount. This book serves the depositor as receipts, from the bank, for the amounts deposited.

Formerly, it was the custom among banks to enter the deposits on the left page of the pass book, as above explained, reserving the right page for the entries of paid checks, which were written in by the bank bookkeeper when the pass book was left at the bank to be balanced, usually at the end of the month. After entering the checks, the bank bookkeeper balanced the pass book, ruled it, and carried the balance down; then returned the book with the cancelled checks to the depositor. This custom yet prevails in many small banks.
pense, Commission, Interest Expense, Repairs, etc.

At present, commercial banks find it more satisfactory to render monthly statements (see Form 15 G) to depositors, without any reference to the bank pass

leave his book at the bank to be "written up," as formerly. When the statement method is in use, the bank pass book is merely the teller's memoranda of deposits to be carried by the depositor.

Check Books (Forms 15 D-E) are usually supplied to the depositor by the bank. They may contain from twenty to several hundred checks, with one or several checks to the page. At the left of each check is the stub, which is separated from the check at a perforated line, and remains in the book after the check is detached.

A very good form of check stub is illustrated in Form 15 D, in which the first deposit, $1000, is entered by the depositor in the space provided for that purpose. The record of the first check drawn is written on the stub, and the amount deducted from the deposit shows a balance of $970, carried forward. Stub No. 2 (Form 15 E) shows the balance carried from Stub No. 1, and a second deposit of $50.25, making a total of $1020.25. From this amount, check No. 2 is deducted, leaving a balance of $856.05 to be carried forward to the third stub, so continuing. Thus, when a check is to be written, the balance remaining in the bank is always shown on the last stub.

In some check books, the stubs are interleaved alternately with the checks. In check books of this form, there is more space on the stubs for figuring.

Endorsements (Form 15 F). Checks or drafts when taken to the bank for deposit, or when transferred to other holders, must be endorsed. For endorsements transferring title, five different forms are given. Of the transfer endorsements, No. 1 is called an "endorsement in blank;" No. 2, an "endorsement in full;" No. 3, an "endorsement without recourse;" No. 4, a "restrictive endorsement;" No. 5, an "endorsement for deposit." The last named form would be used in endorsing the checks included in a deposit, although the first form is frequently used.

Note.—The two endorsements to the right of the form apply to notes.

Statement of Checking Account (Form 15 G). At the close of the month, the bank bookkeeper renders to the depositor a statement of his checking account, and returns with the statement the depositor's paid and canceled checks. In the form referred to, two columns are reserved for the entry of checks, and one column for deposits. The check columns show the date paid and the amounts of the checks. The checks are entered in numbered lines, so that the statement readily shows how many checks are paid during the month. The model shows forty-five checks charged; hence the bank bookkeeper must return that number of vouchers (canceled checks).

The deposits are entered in a column to the right. These entries should agree with the entries made by the teller in the depositor's pass book. (See Form 15 C.)

After entering all checks and deposits on the statement, the bank bookkeeper enters the total of deposits at the foot of the statement, and the total of checks below. The difference between these amounts is the balance remaining to the depositor's credit.

Bank Drafts (Form 15 H). Persons, in transferring funds from one city to another, find it convenient to do so by remitting bank drafts. Any local bank will sell a draft drawn on its correspondent bank, payable at par in any part of the country.

The form illustrates a draft drawn by a bank in North Platte, Nebr., on a bank in New York City. This draft, under ordinary conditions, may be cashed in any city in the United States at par. The bank cashing it will remit it to New York for credit. Local banks sell drafts on banks in the different large cities. It is customary to purchase drafts that are payable in the large city nearest the point remitted to.

Persons buying bank drafts may instruct the banker to make the draft payable to their own order or to the order of the person to whom they make remittance. It is a very good plan to have the draft made payable to

the purchaser's order. In that case, before sending it, the purchaser must endorse it. The form of endorsement to use is shown on Form 15 F, second endorsement.

Banks charge exchange on the drafts sold. Rates differ, but are based on the amount of the draft. Many banks charge ten cents exchange on every hundred dollars.

Note.—Post office money orders and express orders serve the same purpose as bank drafts, for limited amounts.

Notes Discounted (Bank Form 15 I). Business men, when temporarily in need of funds, regularly apply to their banker for loans or discounts. It is a principal service of a bank to loan money to those whose credit is good. When taking a loan or discount, the borrower delivers a note payable to the bank.

The form illustrates a note given to a certain bank. The note does not draw interest until after maturity, the form indicating that the payment for the use of the money from date of maturity is in the form of a discount deducted from the amount that the banker passes to the borrower. Assuming that the interest for sixty days is $20, the banker would discount the note by deducting $20 from the face, and pass $1980 to the customer. At the end of sixty days the customer would pay $2000 in settlement.

If the interest clause in the note read "with interest from date," instead of "with interest from maturity," the form of the note would indicate a loan. In that case, the customer would receive full face when the note was delivered, and pay face, plus interest, at maturity.

Discount Ticket (Form 15 L). When depositors discount their customers' notes and acceptances at a bank, a discount ticket is used. The items should be entered so as to show amounts and net proceeds, as illustrated in the form.

Certificate of Deposit (Form 15 J). Occasions arise when it is desirable to leave a certain amount of money on deposit, not subject to check, but withdrawable in one

amount by the depositor, or on his order. When money is left in this way, it is customary for the banker to issue to the depositor a Certificate of Deposit.

The form illustrates a certificate of deposit issued by a certain bank to Henry S. Miller, who may return it with endorsement, and receive the amount stated, or he may endorse the certificate to another person, who can cash it.

Certified Check (Form 15 K). The payee of a check sometimes demands special assurance that the check will be paid when presented to the bank. This assurance may be given by having the check certified by the banker. The form illustrates a Certified Check. This check has been presented to the bank teller, who has written across the face a certification obligating the bank to pay the check whenever properly presented.

63. Forms Used in Buying and Selling:

The Order Blank (Form 15 N) is a form used by dealers in ordering goods. A book of order blanks should contain duplicates as well as original orders. When the original is sent, the duplicate is kept for reference, as a reminder in case the order is not filled promptly; and later, to be compared with the goods received. Order blanks should be numbered consecutively as a means of ready reference in correspondence.

An Invoice, or Bill (Form 15 O) is sent by the seller to the buyer at the time an order for goods is filled. On it are listed the items sold, the prices and the amount. On the form are written the customer's ledger page (for the convenience of the seller), the route by which the shipment was made, and the terms. The buyer, on receiving an invoice, should check the items carefully with the goods received, and compare with his order to note discrepancies in articles, quantity, or errors in prices or extensions.

64. Forms Used in Shipping:

Bill of Lading (Form 15 V). When a shipper delivers goods to a carrier for shipment, he usually brings

a shipping book, or a set of loose sheets, describing the shipment in triplicate. The printed matter is different on each of the three sheets, but the blank spaces to be filled in by the shipper are the same in each form, so that the set may be completed in one writing by using carbon sheets.

A bill of lading form to be used by all common carriers has been prescribed by the Interstate Commerce Commission. The original copy is a shipping order that is kept by the transportation company. The two duplicates are signed by the agent of the transportation company, the first being a bill of lading which is sent to the consignee, and the second being a memorandum of the bill of lading which is kept by the shipper.

The form represents a set of shipping bills filled out by Cyrus Martin, the signature of the transportation agent, A. H. Hooper, being written on the bill of lading and memorandum.

65. **Forms Used in Settling Obligations:**

A Statement of Account (Form 15 P) is usually rendered to the customer on the first of the month, from the ledger account. The form, a statement for December, shows a balance of $250.19 carried over from November. To this are added the sales made to the customer during the month closed, the total debit being carried to the second column. Below are entered the customer's credits as they appear in the account, the total credits being also carried to the second column, where they are subtracted from the debit total, showing $493.14, the amount due.

The receipt at the bottom of the statement, written on a subsequent date, shows that the customer made full payment on Jan. 9.

An Account Sales (Form 15 Q) is a statement or report sent by the commission firm to the consignor of goods sent for sale on the market. The commission firm undertakes to sell at market prices goods consigned to it, and to remit to the consignor the proceeds from the sales

after taking out different charges for services in effecting the sales.

The form shows that forty-nine barrels of cranberries have been sold for the consignor in four lots amounting in all to $278.40. The commission merchants' charges are entered in detail, amounting to $24.89, leaving $253.51, net proceeds, due the consignor.

Receipts (Form 15 R). The model shows that Campbell & Crane, being indebted to T. M. Carpenter, have paid the debt, and that Mr. Carpenter acknowledges this payment. The form shows the receipt, with the accompanying stub, before the receipt is removed from Mr. Carpenter's receipt book.

That portion of the form to the left of the receipt is called the "stub." It supplies the maker of the receipt with a record of the date, amount, to whom given, and purpose of the receipt. At the time of writing a receipt, always fill out the stub before removing the receipt from the book.

Note.—A receipt form like the one illustrated is frequently unnecessary. In Form 15 P, the payment of the account is receipted on the statement. Invoices (see Form 15 O) are often receipted in like manner. A check returned from the bank with the endorsement of the payee is a receipt for the amount of the check, although not a receipt for the payment of a specified obligation.

A Promissory Note (Form 15 S) is a written promise to pay a stated sum of money at a specified time.

The original parties to a note are the Maker, or party who, by the act of signing the note, makes the promise; and the Payee, or the party to whom the note is made payable. In business, notes are usually made payable at a bank which is specified in the note. In the absence of such specification, the law makes a note payable at the legal residence of the maker.

The form illustrates a promissory note and its stub properly filled out. In entering the amount on a note the same care should be observed to prevent "raising" or other alteration as in the case of a check.

Drafts (Form 15 T-U) are used to adjust accounts without the transmission of money. If J. C. Rogers owes the student $75, and H. C. Preston owes J. C. Rogers, the latter firm can draw on Preston payable to the Student, and the payment of this draft will adjust the several accounts. When the draft is made payable at sight or on demand, the drawee is expected to pay the draft when first presented.

Form 15 T is a draft drawn at thirty days sight, meaning thirty days after presentation. It should be presented to Preston as soon as possible, for acceptance. To accept this draft, Preston should write across the face of the draft the word "Accepted," the current date, and his signature. The draft, after Preston has accepted it, is called an acceptance. (See Form 15 U.)

Commercial drafts are commonly used as a means of making collections from distant firms through the agency of a bank. In this case, the drawer makes out the draft payable to the order of "Myself," or "Ourselves," and endorses the draft in favor of the bank "for collection," or he makes the draft payable directly to the collecting bank, which forwards it for payment or acceptance.

Goods are often paid for with the buyer's acceptance at the time of purchase, the acceptance in such case being used in place of a promissory note and entered in the same way.

If, upon the presentation of a draft, the drawee declines either to pay it or accept it, the draft is said to be dishonored. In the case of a refusal to pay an acceptance it should at once be protested, as in the case of a refusal to pay a promissory note.

Form 16 L illustrates the matter written on protested paper, a note or draft being protested in the same manner as a check. Forms 16 M-N illustrate the papers written and sent out at the time of protest.

66. Forms Connected with Real Estate. Contracts relating to houses and lands are more formal than those relating to personal property. Real property continues

perpetually. In the course of years many different persons become interested in it either as successive owners or as having rights in it. The rights of different persons in the same property often would be confused if all transfers were not clearly made and recorded in the county records as a notice to the public. Common forms relating to real estate are here referred to.

Deed (Form 16 A). In business language, a deed is a conveyance of land. (In law, a deed is any instrument written under seal.) The usual conveyances of real property are made by "warranty" deed or "quit claim" deed: in the one, the grantor guarantees good title; in the other, the grantor merely relinquishes his rights in the property.

In the model form James P. Herbert conveys by warranty deed to John Manning the property described. The signature of the grantor is certified to by a notary public, a public official authorized to certify as to the genuineness of documents.

Mortgage (Form 16 B). In the model form the grantors, James B. and Mary Long, convey to John Manning their interest in the described property subject to the condition that if the grantors pay the four notes named in the mortgage, the conveyance shall be void. Mortgages are also acknowledged in the same form as deeds.

Lease (Form 16 C). A lease is a contract between the owner of property and the tenant, permitting the latter to occupy the property a stated time for a stated compensation. In the model form the owner, or landlord, is the Coleman Real Estate Co., and the tenant, John Manning.

Contract of Sale (Form 16 O). It is quite common for persons to buy real property on installment payments, the title not to pass until certain payments are made. This agreement is evidenced by a Contract of Sale. In the model, the owner, A. H. Avery, agrees to grant D. B. Isaacs a deed to the described property after

certain payments are made. On the back (Form 16 P) is space for recording the payments as made.

67. **Formal Papers Connected with Personal Property.** Contracts or conveyances of personal property of special importance may be evidenced by more formal documents than those referred to in Prin. 63. Forms frequently met with are mentioned.

Bill of Sale (Form 16 D). This is a conveyance of personal property in suitable form for public record. John Manning sells his business property and good will to William A. Goodwin.

Chattel Mortgage (Form 16 G). This is a conveyance of the grantor's interest in personal property subject to a condition which, if fulfilled, will void the instrument. Care should be used to describe personal property in such a way as to clearly identify it.

Insurance Policy (Form 16 I). The risks of fire loss, and other losses due to natural causes or risks incurred, are carried in a large measure by insurance companies for a stipulated premium. In the model form the Commercial Insurance Co., the insurer, agrees to make good to D. C. Bennett, the insured, fire losses in the property of the latter to the extent of $4,000. The insured has paid the company a premium of $40 for assuming this risk.

68. **Papers Relating to Proprietorship.** An individual enters into no written contract when opening a business, since it is his personal concern, and his rights in the business are not shared by others. A partnership is an association of two or more persons whose business relations should be clearly defined in a written agreement. In a corporation, the relations of the owners are regulated by agreements in a number of papers.

Agreement of Co-partnership (Form 16 H). On forming a partnership, the terms and conditions are written in a form similar to the model. As therein stated, Manning and Finney agree as to the investments, sal-

aries, and division of profits of each, the time the partnership is to continue, and other matters. A copy of this agreement should be kept by each partner.

Agreement of Incorporation (Form 16 R). In this form are written the general agreements between the persons who are about to organize a corporation.

Articles of Incorporation (Form 16 T). In this form are set forth the general rules and conditions governing the corporation during its period of existence. This, as the preceding form, is signed by the incorporators.

State Certificate of Incorporation (Form 16 S). This form is issued to the corporation by the state, and is evidence of the power of the corporation to do certain specified business acts as a person.

Certificate of Stock (Form 15 W). This form is issued by the corporation to the share holders, and is evidence of the holder's proprietorship interest in the concern. In the model referred to, a certificate of stock is issued to a stock holder, Martin Goldman, by the American Steel Corporation, as evidence that Mr. Goldman owns fifty shares of the capital stock of that company. To the left is the stub, on which are recorded the essential facts about its issuance, and at the bottom Mr. Goldman's receipt for the certificate. In this instance, the shares, now in possession of Mr. Goldman, were owned by H. B. Rogers, who sold the stock to Mr. Goldman. When one shareholder transfers his shares to another, it is generally necessary for the seller of the shares to surrender his certificate to the company. The company then issues a new certificate to the buyer of the shares. This is called a transfer "on the books" of the corporation.

69. Filing. All business papers that have value as vouchers should be filed for possible future reference.

A Filing System should be adopted with a view to several considerations, some of which are frequently overlooked. It should be such that (1) papers may be

quickly and easily filed; (2) that they may be quickly and easily located; (3) the whole scheme should be on a plan to permit of expansion for future needs, without disarrangement of present methods.

The easiest way to take care of vouchers is to number them serially from the record books, and file them by number. However, there is a very good reason for not filing invoices by number, although they are referred to by number. Most business men find it better to have all invoices from a given firm in one binder or folder, so that comparison of past prices, terms, etc., can be made.

All entries to Expense should be explained by some bill, receipt, or ticket. These can very well be given expense voucher numbers from the books of entry, and filed in numerical order.

Cancelled checks may be called for, months, or even years, after they have been returned by the bank. It is advisable to assort them also by number, when they are returned by the bank, and file them away in this order.

It is a good practice to file all vouchers in their places at the close of the day.

CHAPTER XI

THE JOURNAL—ORIGINAL ENTRIES

71. Original Entries are those made at the time of the transaction, and comprise the basis for the transferred entries, which later appear in the ledger accounts.

There are two important phases of the original entry: (1) the record of the facts about the transaction; (2) the record of the accounts affected by the transaction. The record of the facts is naturally first. It should be a complete record, giving the essentials in such a way as to make subsequent explanation unnecessary.

A statement of the transaction may be written in full in the Journal, thus:

(Date)	Bot. of Henry Gardner on account			
	20 brl. Flour	@	$10.00	$200.00
	10 sk. Buck Wheat	@	1.90	19.00
				$219.00

In the ordinary transactions of business, a voucher of this transaction usually passes hands. Invoices, receipts, notes, drafts, checks, etc., are vouchers of business transactions. In the above transaction, if an invoice was received with the flour, the invoice should be preserved as a voucher of the transaction. With the voucher to refer to, the entry could be abbreviated, thus:

(Date) Bot. of Henry Gardner on account
Mdse. per invoice No. 1.....$219.00

The record of a business transaction includes proper filing of the voucher supporting the entry. When the facts are recorded, the next step is to determine and enter, for the purpose of posting, the titles of the accounts affected by the transaction.

In the above transaction, with the facts before him, the bookkeeper indicates the account to be debited by placing the debit account name to the left and the credit

account name to the right, and likewise the debit and credit amounts in the left and right money columns, thus:

(Date)	Bot. of Henry Gardner on account Mdse. per invoice No. 1.....$219.00		
	Mdse. Purchases	219.00	
	Henry Gardner		219.00

In a business having numerous account subdivisions, the account to debit or to credit in a given transaction, may be in doubt, and often the matter cannot be decided at the moment. With a correct original record of the facts, the posting titles can be entered at any time before the posting is done.

For many years, the Day Book was used to contain all records of the facts about transactions, and the Journal was used to show the posting titles and amounts. These two books, in more recent bookkeeping, have been combined into one book, retaining the name Journal. But the latter book is not used now to contain all original entries of a business except under very simple business conditions. In the average office, it contains such entries as other books of original entry cannot properly explain and classify.

However, it is possible to make every entry in journal form, and the journal form of an entry is the one used in discussing the account analysis of any transaction.

71 B. The ordinary routine entries of a business are made to the best advantage in a number of books, intermediate between journal and ledger, and containing some of the elements of both.

The first of these is the Cash Book, which contains original entries of cash receipts and payments, in more compact order than if they were spread upon a journal, while at the same time, it is so arranged as to exhibit the cash balance without posting to the ledger. (See Forms 10 B, 13 B, etc.)

The Sales Book is probably next in importance among the books intermediate in function between jour-

nal and ledger. This book gives a consecutive record of sales in form to be added to find the entire sales without posting, item by item, to the credit of a Sales account in the ledger. (See Form 13 C.)

The Purchases Book (Form 13 D), the Bill Book (Form 13 M), the Inventory Book (Form 14 N-P), and many other books applying especially to certain lines of business, take the place of the journal, for original entries, while they relieve the ledger of more or less details.

The original entry, then, is the first record of a transaction in the journal or other book designed for first entries of a given class. The original entry should either give all essential facts of the transaction, or else refer to accessible vouchers giving the essential facts.

71 C. Reliable Original Entries. Bookkeeping records serve to explain the financial obligations between a given business concern and other persons or concerns, between the members of the same concern, and also to explain the business operations.

The adjustment of differences between a concern and outside people, or between its several members, may carry with it disputes that must be settled in a court of law. The amounts of such settlements depend largely on the records kept by the parties to the dispute. Account books submitted in court as evidence, are accepted, as a rule, if they comply with certain established rules considered essential to a good record. If they do not comply with those rules, the books may be, and generally are, given no consideration.

A good set of books will be found to show evidence that the entries are complete (Prin. 71 D), systematic (71 E), reliable (71 F), and promptly recorded (71 G).

71 D. Complete Entries. The books must exhibit evidence that they contain all the records of a given kind, entered according to a definite method and order. The accuracy of other records in the same books not bearing on the particular matter in dispute, has a bearing on the credibility of the records as a whole. The appear-

ance of any slackness in making records in any part of the books, tends to destroy the entire record as evidence. Completeness should also extend to a statement of all the essential facts in every entry of every transaction. There should be no need to guess at the meaning of an entry.

71 E. **Systematic Entries.** There must be a well defined system for making entries. Varying styles of entry, or even variation in the style of writing, tend to cast doubt upon a set of books. These should show that all entries of the same kind follow the same general routine of entry.

Any kind of books, whether bound, or loose-leaf, or even cards, or other devices, are admissible, provided they show all reasonable safeguards against inaccuracy.

71 F. **Reliable Entries.** A set of books should show the straightforward, open record of one who is accustomed to write facts, and to record them just as they are. Erasures and alterations show uncertainty. Any mistakes made in books are especially damaging, if they are either wholly or partially concealed.

The best kept books may show some errors, but when an error is discovered in an original entry, it should be plainly marked, "error," and the correction for it should be also plainly marked as a "correction."

71 G. **Prompt Entries.** The books should show that all records of transactions were made while the facts were fresh in mind. It should be kept in view that the purpose of books is to carry a great mass of business facts, as a relief to the mind. To carry in memory, any longer than necessary, things that require entry in the books, is certainly a bad method.

71 H. **Ruling in Books of Original Entry.** Books of original entry are ruled in a variety of ways to suit different kinds of entries. The ruling should afford convenient spaces for the following elements of record, essential to every entry:

(1). Date of the transaction.
(2). Persons with whom the firm has transactions.
(3). Details of the transaction.
(4). The ledger accounts affected by the transaction.
(5). The amounts.
(6). Posting of the amounts to the accounts.

All of these points should appear in every original entry that may involve some future dispute.

A place for each of these points in a record is generally provided, in books of original entry, by vertical columns separated by vertically ruled lines. Thus we have the "date column," the "explanation column," the "account column," the "posting column," the "money column," etc. The order and arrangement of these columns are open to the preference of the bookkeeper, and are determined by the following considerations:

(1). Convenience in making original entries.
(2). Convenience in posting.
(3). Convenience for future reference.

A change in arrangement of columns in books of original entry has often increased the efficiency of a bookkeeper. To reduce the daily entry and posting time by one hour, should increase the efficiency of a bookkeeper something like fourteen per cent.

The following points in arrangement of books of original entry have aided the author to keep books effectively. Although they are not uniformly followed by other authors and accountants, it will be found that practical forms sold in stationery stores agree very generally with reference to the following matters of arrangement:

(1) The date should be at the extreme left in all books of original entry. This enables one to look at one place for the date whatever book is used.

(2) The memoranda should follow the dates. By memoranda is meant the general explanation of the nature of the entry.

(3) The account names should follow the memoranda. There are two reasons for this: The account

classification is derived from the memoranda; the account names, if placed as near the amounts to be posted as possible, cause less eye strain in glancing at the entries when posting than would be the case if the account names and the amounts, were separated by memoranda which is not essential to posting.

(4) The account names should be followed by the column for post marks. This places the post mark between the account name and the amount.

(5) The amount columns should come last and to the right. A book of original entry will lie on the table to the left of the ledger at posting time, and by having account names, post marks and amounts together, and as close to the ledger as possible, the motions of the eyes and hand are reduced to the minimum.

71 I. Reading Amounts. Bookkeepers are frequently at a loss to read amounts so as to be quickly and easily understood by the one to whom read. In offices where oral reading is required, a system for calling off the numbers is necessary in order to facilitate work. This system may be learned in five minutes, resulting in fully five minutes saved in every hour's reading.

To read amounts, divide dollars into parts of three figures each, beginning at the decimal point, and read the cents separately; thus $56947.83 would be divided 56-947-83 and read "fifty-six, nine forty-seven, eighty-three." The following amounts with the manner of reading them orally will probably answer as a suggestion for any combination.

$ 129.58	One twenty-nine, fifty-eight.
12900.58	Twelve, nine hundred dollars, fifty-eight
12958.00	Twelve, nine fifty-eight dollars.
.58	Cents, fifty-eight.
1.03	One-O-three. (The word "O" is more easily pronounced than nought or ought.)
700.20	Seven hundred dollars, twenty.
720.00	Seven hundred twenty.
7.20	Seven, twenty.
24.00	Twenty-four.
.24	Cents, twenty-four.
1308.07	One, three-O-eight, O-seven.
259546.03	Two fifty-nine, five forty-six, O-three.

CHAPTER XII

THE JOURNAL—DEBIT AND CREDIT

72. **General Rule.** *Debit an account to show value passed into the business element named by the account; credit an account to show value passed out of the business element named in the account.*

This rule seems as comprehensive and true to conditions as any general rule that the author has seen; but in order to direct its application, some discussion of the principles underlying it seem to be in place.

A business concern is made up of a number of constituent elements, or essential parts, which are involved in operating the business. Thus, cash, accounts receivable and payable, property, proprietorship, trading, expense, interest, etc., are the names of elements entering into the business. These elements are discussed at length in Prin. 1 to 60. A business transaction involves value passing into one or more of the business elements and passing out of one or more business elements. The transfers of value are indicated by debit and credit entries in the journal.

After debits and credits are indicated, the entries are posted to the accounts so that all values passed into and passed out of a given element may be found listed in the debit and credit columns of the account. The account may be balanced. A debit excess shows primarily that more value has passed into the named element than has passed out of it; a credit excess shows the reverse.

The bookkeeper undertakes to indicate by debits and credits all values passing into and out of all named elements of the business. The transfer of values occurs in several ways, of which an outline is here given:

(1) By investment: value passes into one or more property elements of the business out of proprietorship.

(2) By buying: value passes into one or more property or service elements out of cash or obligations payable.

(3) By selling: value passes into cash or obligations collectible out of property, services, or both.

(4) By paying: value passes into obligations payable out of cash.

(5) By collecting: value passes into cash out of obligations collectible.

(6) By gifts received: value passes into one or more property elements of the business out of donations.

(7) By manufacturing: value passes into the product manufactured out of materials, labor and expense.

(8) By depreciation: value passes into the element of depreciation out of the element of property.

(9) By appreciation: value passes into property out of the element of rise in value.

(10) By accident, theft, etc.: value passes into the element of chance out of the element of cash, property, etc.

It will be seen in the above instances, that to debit and credit transactions properly, one must have in mind the elements of the business, or at least be able to recognize the element into which and out of which value passes by reason of transactions or circumstances.

The Cash account, and all property accounts, are to be debited to show a value passed into the named element, and credited with equal value passed out. Property other than cash, when purchased, is debited at cost and when sold is credited at cost. The difference between cost and selling price of property is attributed to some element named in a nominal account. Thus, the difference between the cost and selling price of merchandise is attributed to the operation of trading and the amount of the difference is found in the Trading account. The difference between the value passed into a note receivable and the amount passed out of it when collected, is attributed to interest, and is credited in the Interest account.

The nominal accounts show the causes of increase or decrease in property.

But the result of increase or decrease is profit or loss; so when it is not considered necessary to specify the cause in a nominal account, the cause is not mentioned, but the result it carried directly to Profit and Loss. It is apparent, however, that if increase or decrease in the value of property be noted in the account at the time of occurrence, the book value would be the real value, which would be an ideal condition. A practical approximation of this condition is accomplished in good bookkeeping.

Results are exhibited in two ways in current bookkeeping, which for the sake of distinction we will call the earlier method and the later method.

In the earlier method, the elements of the business were distinguished in a somewhat loose way. The accounts were debited and credited from the transactions without very careful attention to results; until at the close of the year, a review of the entire matter was made. At that time an inventory or appraisal of the value remaining in each element was made, the account was credited with its estimated value as passing out of the given year into the next, and the remainder was passed to Profit and Loss. Under this method the proprietor was more or less uncertain as to the results during the year, or until the books were closed; and could not have very effective information from his books as to the progress of the business day by day. The older method made free use of the mixed account, which does not exhibit a financial result until inventory time. This method of keeping accounts was the occasion of many business failures and financial difficulties due to lack of current information about the business.

Under the later method, the business man recognizes that the elements of the business can be distinguished in such a way as to make a closer exhibit of results continuously, or at least at stated times during the year. Especially can the accounts be kept so as not to cause

overestimate of profits. In order to do this, mixed accounts are abandoned, and simple accounts are substituted.

Four financial conditions are recognized in the accounts—assets, liabilities, profits, and losses—and the accounts are named and entries are made so as to hold these accounts as nearly as practicable to a current exhibit of the conditions mentioned. In order to do this, attention must be given to the passage of value out of property elements into profit or loss elements at the time the passage occurs. Thus, by the older method the sale of a building for $6000.00 cash which had been debited in the Real Estate account at $5000.00 would be entered thus:

Cash	6000.00	
Real Estate		6000.00

The profit from the sale would be shown at the end of the year when a balance would be carried from the Real Estate account to Profit and Loss.

Under the later method, the entry would be:

Cash	6000.00	
Real Estate		5000.00
Profit		1000.00

By the latter entry the profit is apparent on the books at once as profit instead of being obscured in the property account until the end of the accounting period.

The recognition of depreciation in property gives occasion for entries which, under older methods, were deferred or neglected with the result that the business man suffered from a corresponding uncertainty as to his income. Everything made by hand wears or wastes away. A house may last fifty years, a machine ten, a tool one. Whatever the life of the property, its value passes out day by day until it becomes absolutely unfit for the purpose intended. This fact is recognized in bookkeeping by estimating the value passed out of fixed property at regular intervals and crediting the Property account either directly or in a subsidiary Reserve account. Thus, on the assumption that a machine costing $1000.00 de-

preciates in value 10% during an accounting period, an entry would be made:

Depreciation	100.00	
Reserve for Depreciation on Machine..		100.00

The account "Reserve for Depreciation" is simply a device for crediting value passed out of the property without writing the credit entry in the Property account. In considering the value remaining in the machine, the credit in the reserve would be taken from the debit in the property account.

The depreciation in fixed property not to be replaced is shown by writing off a certain amount periodically. Thus, the value of a patent, debited at $3000.00, may be found to pass out at the rate of $500.00 a year. In that case the yearly entry would be:

Depreciation	500.00	
Patent		500.00

In accounts of things which cannot be replaced, the credit for diminishment in value is made directly in the account instead of in a reserve for the account.

In the case of floating property—movable things that are bought and sold piecemeal — depreciation is not a matter of debit and credit entry. Merchandise, however, depreciates as well as anything else; but the depreciation is deducted from the inventory before entry in the books.

Value passes out of accounts and notes receivable by reason of inability to collect. This fact is recognized by entry. Thus, John Smith's debit of $50 is uncollectible. Entry is made:

Profit and Loss	50.00	
John Smith		50.00

Journal entries are used to show value passed into and out of business elements, whether the passage was occasioned by actual transactions between persons or by conditions affecting property.

Whatever the transaction, the student may determine what account to debit and what to credit by noting the elements into which and out of which value has passed.

The following entries will serve to illustrate debits and credits for transactions grouped for convenient reference under entries in cash accounts (Prin. 72 A); entries in accounts of cash receivable (Prin. 72 B); entries in accounts of cash payable (Prin. 72 C); entries in accounts of assets not cash or cash receivable (Prin. 72 D); entries in accounts of profit or gain (Prin. 72 E); entries in accounts of loss (Prin. 72 F); entries to readjust accounts (Prin. 72 G); entries to close the books (Prin. 72 H).

72 A. Entries in Cash Accounts. The Cash accounts are carried in an account of general money, headed, Cash; and in current cash funds kept for special purposes as Cashier's Fund, Traveling Expense Fund, etc.

Examples:

(1)

James Good began business with cash invested $1000.00.

Cash Dr. (Value passed into an asset).....	1000.00	
James Good, Capital, Cr. (Value passed out of proprietorship)		1000.00

(2)

Paid cash $25 for rent of store on month.

Expense Dr. (Value passed into operations)...	25.00	
Cash Cr. (Value passed out of an asset)..		25.00

(3)

Set aside $50 in a cashier's fund for petty cash payments.

Cashier Fund Dr. (Value passed into an asset)	50.00	
Cash Cr. (Value passed out of an asset)..		50.00

(4)

Sold H. C. Hoover for cash
10 bbl. Flour @ $11.00..... 110.00

Cash Dr. (Value passed into an asset)..	110.00	
Mdse. Sales Cr. (Value passed out of trading operations).....		110.00

(5)

Bot. of Greely & Co. for cash
Mdse. per Inv. No. 1.....$625.00

Mdse. Purchases Dr. (Value passed into trading operations)	625.00	
Cash Cr. (Value passed out of an asset)		625.00

72 B. Entries in Accounts of Cash Receivable. These accounts include customers' accounts under the debtors'

names or considered collectively under the heading Accounts Receivable, Notes Receivable, Bonds Receivable, and Mortgages Receivable, or other claims for definite amounts of money to be collected immediately or in the future.

Examples:

(6)

Sold H. Bell on account
5 bbl. Flour @ $11.00..... 55.00
H. Bell Dr. (Value passed into an asset)... 55.00
Mdse. Sales Cr. (Value passed out of operations) 55.00

(7)

Received from H. Bell $25.00 cash on account.
Cash Dr. (Value passed into an asset)..... 25.00
H. Bell Cr. (Value passed out of an asset)..... 25.00

(8)

Sold P. D. Fisher for 30-day note
6 tons hay @ $18.00.....$108.00
Notes Receivable Dr. (Value passed into an asset) 108.00
Mdse. Sales Cr. (Value passed out of operations) 108.00

(9)

Received Cash $50 from P. B. Fisher to apply on note against him.
Cash Dr. (Value passed into an asset)..... 50.00
Notes Receivable Cr. (Value passed out of an asset) 50.00

(10)

Received from P. B. Fisher cash $60.00 in payment of balance due on note $58.00 and interest $2.00.
Cash Dr. (Value passed into an asset)..... 60.00
Notes Receivable Cr. Value passed out of an asset) 58.00
Interest Cr. (Value passed out of operations)... 2.00

72 C. Entries in Accounts of Cash Payable. These accounts include all records showing definite amounts of money to be paid, including creditors' accounts under the persons' names, or considered collectively as accounts payable; also Notes Payable, Bonds and Mortgages Payable and other obligations under suitable account headings.

Examples:

(11)

Bot. of W. Doe on account
20 tons coal @ $12.00.....$240.00
Coal Purchases Dr. (Value passed into operations) 240.00
W. Doe Cr. (Value passed out of liability) 240.00

(12)

Paid W. Doe cash $100 on account.
W. Doe Dr. (Value passed into a liability).....100.00
Cash Cr. (Value passed out of an asset)..... 100.00

(13)

Gave W. Doe our 60-day note for $140.00 in settlement of acct.
W. Doe Dr. (Value passed into a liability).....140.00
Notes Pay. Cr. (Value passed out of a liability) 140.00

(14)

Issued bonds payable for $20,000, receiving cash therefor at par.
Cash Dr. (Value passed into an asset).....20,000.00
Bonds Payable Cr. (Value passed out of a liability) 20,000.00

(15)

Paid W. Doe cash $145.00 in settlement of note due him $140.00 and interest $5.00.
Notes Payable Dr. (Value passed into a liability)...140.00
Interest Dr. (Value passed into operations)..... 5.00
Cash Cr. (Value passed out of an asset)..... 145.00

72 D. Entries in Accounts of Assets Not Cash or Cash Receivable. These accounts cover all property except cash and cash to be collected. When purchased, a debit is made at cost; when received by other means than purchase, a fair valuation is debited. They are divided into floating or current property, and fixed or invested property. As a rule, the floating property is entered from inventory so that the Inventory account contains a list of the floating property valued at cost or at cost less depreciation.

The fixed property is not subject to re-entry in the books from inventory, but remains on the books as first debited, depreciation being shown by a credit in such accounts as do not represent some replaceable property, and by a credit in an account of Reserve for Depreciation annexed to such accounts as represent replaceable property of considerable value.

Examples:

(16)

Bot of Graham & Co. for cash 3 delivery trucks for use @ $450.00 ..... $1350.00

Delivery Equipment Dr. (Value passed into an asset) 1350.00

Cash Cr. (Value passed out of an asset) 1350.00

(17)

Sold S. H. Gorman for note $425.00
1 delivery truck (costing $450.00)

Notes Rec. Dr. (Value passed into an asset) 425.00

Profit and Loss Dr. (Value passed into an unnamed operation) 25.00

Delivery Equipment Cr. (Value passed out of an asset) 450.00

(18)

Sold Peter Messner for cash $475.00
1 delivery truck (costing $450.00)

Cash Dr. (Value passed into an asset) 475.00

Delivery Equipment Cr. (Value passed out of an asset) 450.00

Profit and Loss Cr. (Value passed out of an unnamed operation) 25.00

(19)

It is ascertained that during a certain period a delivery truck costing $450.00 has depreciated 10%.

Depreciation Dr. (Value passed into operations) ... 45.00

Reserve for Depreciation of Delivery Equipment Cr. (Value passed out of an asset) 45.00

(20)

It is ascertained that the land occupied by the concern, costing $10,000, would now sell for $12,000. No entry made. Accountants consider appreciation as being so doubtful as to be excluded from entry. An entry of appreciation might cause an over-estimate of income which is unsafe. An over-estimate of depreciation might cause an under-estimate of income, but that would not be unsafe.

72 E. Entries in Accounts of Profit. These accounts are named to designate the nature or cause of an income. Any value coming into the concern from a source other than even exchange for a recorded asset is classed under income or gain. A number of entries crediting income accounts, have been given in preceding examples. The following five examples contain such credits.

Examples:

(21)

Sold P. Magnus on account
Mdse. per Sale No. 24, $129.69.

P. Magnus Dr. (Value passed into an asset) 129.69
Mdse. Sales Cr. (Value passed out of an operation) 129.69

Note.—The Trading account is made up of three accounts, Sales, Purchases, and Inventory, which are combined at the end of the accounting period to show the trading income. The Sales account is subsidiary to Trading.

(22)

Bot of Carr & Son on account
Mdse. per Inv. No. 5 $461.27.

Mdse. Purch. Dr. (Value passed into an operation) . 461.27
Carr & Son Cr. (Value passed out of a liability) 461.27

(23)

Received cash $15.00 from J. Bennett in settlement of interest due on a note receivable.

Cash Dr. (Value passed into an asset) 15.00
Interest Cr. (Value passed out of an operation) 15.00

(24)

Paid P. Magnus cash in settlement of Invoice No. 24, for $129.69, less 2% discount.

P. Magnus Dr. (Value passed into a liability) 129.69
Cash Cr. (Value passed out of an asset) 127.10
Cash Discount Cr. (Value passed out of an operation) 2.59

(25)

Sold building and lot (costing $10,000) for cash $12,000.

Cash Dr. (Value passed into an asset) 12,000.00
Building & Lot Cr. (Value passed out of an asset) 10,000.00
Profit & Loss Cr. (Value passed out of an operation) 2,000.00

72 F. Entries in Accounts of Loss. Loss expenditures are debited in an expense account, in an income account or account of operations when considered a special charge, or if of an unusual nature, in Profit and Loss. The following five examples contain such debits:

(26)

Paid cash $39.60 for books and stationery for office use.

Expense Dr. (Value passed into operations) 39.60
Cash (Cr. (Value passed out of an asset) 39.60

(27)

Reimbursed the cashier's fund for petty payments out of cashier's fund, $22.78.

Expense Dr. (Value passed into operations) 22.78
Cash Cr. (Value passed out of an asset) 22.78

Note.—The small payments made by the cashier are entered in memorandum form until such time as a check is issued for them, when the amount is debited to expense. The proceeds of the check is returned to the fund without entry in the general cash book for the return.

(28)

Sold coal bins and equipment (costing $1350) for cash $1000.00.

Cash Dr. (Value passed into an asset)	1000.00	
Profit & Loss Dr. (Value passed into loss)	350.00	
Coal Bins Cr. (Value passed out of an asset)		1350.00

(29)

Paid cash for note due D. Maine, face $100, interest $3.00.

Notes Payable Dr. (Value passed into a liability)	100.00	
Interest Dr. (Value passed into operations)	3.00	
Cash Cr. (Value passed out of an asset)		103.00

(30)

Received cash $98.00 from D. Collings in settlement of a sale on account, $100.00, less 2% cash discount.

Cash Dr. (Value passed into an asset)	98.00	
Cash Discount Dr. (Value passed into operations)	2.00	
D. Collings Cr. (Value passed out of an asset)		100.00

72 G. Entries of Readjustment. These entries are made at the close of the accounting period to take into account changes in condition of the elements of the business that have not been previously recorded from the transactions. They refer principally to inventories and a systematic record of depreciation. After readjustments are made, the accounts are ready to close into Profit and Loss.

Examples:

(31)

The following inventories, entered at the beginning of the accounting period, are found at the close of the period as debits in an account headed Inventory:

Merchandise	15,290.64
Expense	60.42
Interest	50.49
	15,401.55

Trading Dr. (Value passed into operations)	15,290.64	
Expense Dr. (Value passed into operations)	60.42	
Interest Dr. (Value passed into operations)	50.49	
Inventory Cr. (Value passed out of an asset)		15,401.55

(32)

The following inventories at the close of the period are to be entered in the books:

Merchandise	21,837.90	
Expense (unconsumed)	102.61	
Interest (receivable)	32.68	
	21.973.19	
Inventory Dr. (Value passed into an asset)	21,973.19	
Trading Cr. (Value passed out of operations)		21,837.90
Expense Cr. (Value passed out of operations)		102.61
Interest Cr. (Value passed out of operations)		32.68

(33)

The following inventoried liabilities carried from the beginning of the accounting period appear as credits:

Expense, incurred but unpaid	55.00	
Interest, payable accrued	105.20	
Discounts, payable anticipated	210.40	
	370.60	
Liability Inventory Dr. (Value passed into a liability)	370.60	
Expense Cr. (Value passed out of operations)		55.00
Interest Cr. (Value passed out of operations)		105.20
Discounts Cr. (Value passed out of operations)		210.40

(34)

The following liability inventories are made at the close of the accounting period:

Expense incurred but unpaid	73.20	
Interest payable accrued	64.37	
Discounts payable anticipated	150.20	
	287.77	
Expense Dr. (Value passed into operations)	73.20	
Interest Dr. (Value passed into operations)	64.37	
Discount Dr. (Value passed into operations)	150.20	
Liability Inventory Cr. (Value passed out of a liability)		287.77

(35)

The following amounts of depreciation are entered at the close of the accounting period:

Depreciation in building	500.00
Depreciation in machinery	1000.00
Depreciation in furn. & fixtures....	100.00
Dep. in patterns, drawings, etc.....	600.00
Depreciation in good-will	300.00
	2500.00

Depreciation Dr. (Value passed into operations)..	2500.00	
Reserve for Depreciation in Building Cr. (out of asset)		500.00
Reserve for Depreciation in Machinery Cr. (out of asset)		1000.00
Reserve for Depreciation in Furn. & Fixtures Cr. (out of asset)		100.00
Patterns and Drawings Cr. (out of asset)...		600.00
Good-will Cr. (out of asset).....		300.00

72 H. Entries to Close the Books. The general rule given for debit and credit (Prin. 72) refers to entries for transactions or operations only, but is not applicable to the entries for closing the books.

Closing entries are nothing more than indications in the journal that account balances are carried from nominal accounts into more general summaries.

The nominal account headings are merely names of elements that have entered into former operations brought to completion at the end of the accounting period. The elements of a past period have no value, and the account balances are carried to Profit and Loss, which, when balanced, shows the results of the operations summarized in one amount of net profit or net loss. The balance of Profit and Loss is carried to the summaries of Proprietorship, as explained in Prin. 35-40.

Examples:

(36)

After readjustment of the ledger as to assets and liabilities, the following are the balances of accounts involved in trading:

Sales, credit balance.....	41,453.68	
Purchases, debit balance.....	25,705.72	
Sales (balance carried to Trading).		41,453.68

Trading (balance from Sales)..		41,453.68
Trading (balance from Purchases).	25,705.72	
Purchases (balance carried to Trading)		25,705.72

(37)

After carrying balances of subsidiary trading accounts to Trading, the following nominal account balances appear in the ledger:

Trading, credit balance.....	22.295.22		
Selling Expense, debit balance..	6,142.92		
General Expense, debit balance.	8,347.29		
Interest and Disc'nt, credit bal..	162.91		
Trading (balance to Profit and Loss)		22,295.22	
Interest and Discount (balance to Profit and Loss)		162.91	
Profit and Loss (balance from Trading and Int. & Disct.).			22,458.13
Profit and Loss (balances from Selling and Genl. Expense)....		14,490.21	
Selling Expense (balance to Profit and Loss)			6,142.92
General Expense (balance to Profit and Loss)			8,347.29

(38)

After carrying all nominal account balances to Profit and Loss, there is found to be a credit balance of $7967.92 in the latter account, which balance is to be carried to the Capital account of John Smith, the proprietor.

Profit and Loss (balance carried to Capital acct)	7,967.92	
John Smith, Capital (carried from P. & L)..		7,967.92

72 I. Practical Journalizing. A bookkeeper should be able to arrange any entry in journal form, even though that is not the form regularly used for the given entry in his books. There are several reasons for this.

(1). Complicated transactions may arise wherein he may not see clearly the equality of several debits and credits, unless they are arranged together in journal form. Placing the entry in journal form on a slip of paper will aid him in arriving at the analysis.

(2). The journal order is the accepted means of explaining to others orally the accounts to be debited and credited. While a bookkeeper may post debits and

credits from all sorts of books, without direct reference to an equality, yet he should, at any time, be able to form a mental or written picture of the equilibrium of all the accounts involved, as shown in the journal entry.

(3). In large business concerns, the bookkeeping system may require that a separate voucher, or sheet, be used to describe each transaction. When this is the case, the debits and credits are written on the voucher, making a statement which is equivalent to a journal entry.

In referring orally to the accounts to be debited and credited, the debit title or titles are named first; afterward, the credit title or titles, with "to" between the debits and credits. Thus, if an entry requires that John Smith be charged $50, and Sales be credited $50, we would say "John Smith to Sales, $50." If a transaction should require several debits, as Purchases, $60, Expense $5.50; and several credits, as Cash $10 and Notes Payable $55.50, we would say "Purchases $60, and Expense $5.50, to Cash $10, and Notes Payable $55.50." Whatever the number of debits or credits, the sum of the debits must equal the sum of the credits.

CHAPTER XIII

THE JOURNAL—FORMS OF

73. Every business transaction may be entered correctly in the plain journal. In certain simple lines of business, a journal and a ledger are, all things considered, the only books needed. But commonly, the ordinary routine entries of a business are made in special books, leaving the journal for entries of an unusual nature or importance.

On account of the importance, for reference, of such journal entries as are made, and their relatively rare occurrence under ordinary working conditions, especial emphasis is placed on a full and complete explanation of the entries rather than on the matter of making them rapidly. Young bookkeepers often think they have done well enough, if they merely indicate the ledger accounts to be debited and credited by a journal entry, with a bare hint at the nature of the transaction in the explanatory portion. The experienced bookkeeper is more concerned about clear and complete memoranda, knowing that in the journal, rather than in other books of original entry, are to be found records of transactions that may lead to misunderstanding and litigation, especially among the owners of the business, if full facts are not clearly stated.

73 B. Different Uses for Journal. A complete journal (Prin. 73 C) contains all original entries, of whatever nature, that pertain to a given business. A general journal (73 D) contains such entries as the other special books do not provide for. A special journal (73 E) contains entries of a special nature, and may be designated by such names as sales journal, purchase journal, shipment journal, credit journal, debit journal, and the like. A columnal journal (73 F) is one that, in addition to the

two ordinary charge and credit money columns, has other columns in which are grouped entries of a special kind.

73 C. The Complete Journal contains all original entries, and is ruled so as to provide space for date, memoranda, ledger titles, postmark, and amounts. These different parts of the entry are arranged in somewhat different order by different bookkeepers or under varying conditions.

Form 12 A is recommended as good. To the left is placed the date, which is the first thing looked for in referring to an entry. The wide space in the center provides space for the considerable amount of memoranda usually required in journal entries. Below the memorandum are placed the titles of the ledger accounts affected by the transaction. The debit title is placed one space to the left of the memorandum, in order to make it clearly distinguishable, and above the credit title, which is placed slightly to the right of the debit title. Opposite these titles, in the money columns, are the amounts. These are placed in the debit and credit columns, respectively, and on the same writing lines with the titles. Immediately before the money columns is the postmark column. The postmark column should be close to the amounts for greater convenience in postmarking as the posting proceeds, and to permit the bookkeeper to verify more quickly the posting of the amounts.

The complete journal is often a journal of several columns as described in Prin. 73 F.

73 D. The General Journal may be ruled in any form used for the complete journal. The term, general, implies that there are also special books kept for the entries of certain special kinds of transactions, and that the unclassified transactions, or those of a general significance, are to be recorded in the general journal.

The complete journal and the general journal may be thus distinguished: The complete journal contains all transactions, whereas the general journal contains only such transactions as have not been entered in other special books. For example, assuming that in an ordinary trading business, the three most numerous classes of transactions will find record in special books, rather than in the journal,—i. e. cash received and paid in the cash book, merchandise bought in the purchases book, merchandise sold in the sales book,—there remain certain kinds of entries to be looked for in the general journal. Among them are: (1) entries affecting the proprietor's accounts; (2) entries showing the closing of the books; (3) entries of an unusual nature; (4) entries of correction or adjustment; (5) entries or memoranda of contracts, agreements, etc.; (6) entries that appear in part in

some other book of original entry, but cannot appear wholly in the special book. When such occur, the journal entries are regarded as entries to be posted, and the entries in the special books as entries already posted. An entry in a special book is to be checked out, not posted to the ledger, when it is covered by an entry in the general journal.

73 E. A Special Journal contains a certain kind of entries that, for convenience, are separated from the general journal. In a sense, all books of original entry are journals, and entries in them may be properly referred to as journal entries. A so-called "special journal" is rather in the nature of an abstract of certain entries that have been arranged and put in balance before posting. Thus, a sales journal contains the dates, titles, terms and amounts of sales, that is to say, an abstract of sales, gathered from bills, and balanced ready for posting; a purchase journal contains a similar abstract of invoices; a shipment journal contains an abstract of shipments, similarly arranged. Debit journals are frequently used in banks and wholesale houses, and contains no entries but the debits; credit journals, on the other hand, contain no entries but the credits.

73 F. A Columnar Journal has one or more special money columns in addition to the two general money columns. The special columns are used to separate items of a given kind from the general miscellany of items, so that those thus separated may be added and their sum treated as one amount for posting to a controlling account or for reference. If these were left in the general column, they would have to be posted or collected for reference one at a time. The special column principle, when properly applied, has saved an immense amount of time in bookkeeping; but, on the other hand, when its application was faulty, it has caused a great deal of extra labor.

A special column can be used advantageously only for frequently repeated entries of the same kind that are recorded consecutively with the other entries by one bookkeeper. Where several persons are working on the same set of books, it is generally more economical of time

and effort to substitute special books of entry instead of adding special columns. There may be instances where a special sales column in a journal, allowing the sales to be entered in the journal along with other items, would work out to better advantage than to separate the sales entries from the journal by the use of a sales book. But this would seldom be advisable.

The advantage of a special column in a journal must, in each instance, be compared with the alternative advantage of supplying a special book to contain the entries which the special column is planned for, or with the extra work of posting singly from a general column the items assignable to the special column.

A special column should not be added to a journal unless it is clear that the extra labor of making entries in this column, of carrying the footings of the column forward from page to page, and finally of proving the total at the end of the posting period, would be less than the labor of posting the given entries from a general column.

73 G. A Cash Journal may be used to great advantage under certain conditions. A form of this journal contains four money columns, two for debits and credits that require posting to ledger accounts, and two for deposits in the bank and checks drawn against the deposits. This journal is particularly well suited for private individuals who wish to keep concise, accurate accounts of their property and obligations, together with their incomes and expenses. It contains a complete record of all transactions that involve property, claims receivable, and obligations payable, and may contain any other memoranda for journal record. A detailed description follows:

Form 12 W. Referring to this form, there are shown five descriptive columns, followed by four money columns. The first column is for the date, the second for explanatory matter, the third for titles of ledger accounts, the fourth for the check number, (use when the transaction involves the issuance of a check), the fifth for the postmark of amounts in the general columns posted to

the ledger. There are four money columns, numbers six to nine. Numbers six and seven may contain all debit and credit amounts. In the set which this form illustrates, all cash receipts are deposited, and cash payments or money required for payments are withdrawn from the bank by checks. The bank account is comparatively active. Columns numbered eight and nine permit the bookkeeper to carry bank debits or credits from the general columns to the bank columns, and to that extent save labor in posting.

When such a book is used, it is more convenient to balance the bank columns and carry the balance down in the journal to the following month, as shown in the form, than to post the totals of these two columns to a bank account in the ledger, as could be done.

Note.—For other cash journals, see Forms 17 M, 22 D and 23 I.

CHAPTER XIV

THE CASH BOOK

74. The Cash Book contains the daily record of cash receipts and payments. It thus takes the place of the journal as a record of cash transactions. The cash book also provides for the entries of receipts in a column separate from the entries of payments, making it equivalent to a ledger account of Cash.

Besides the general receipt and payment columns used in all cash books, one or more special columns may be added for classifying special kinds of receipts and payments, thus making a columnar cash book.

The cash book should contain a satisfactory explanation of all receipts and payments. Every entry should be fully explained if there is no voucher to support it; or, if there is, this voucher should be described in the entry in such a way as to make it easy to find. This book is to be kept with care; entries are to be made promptly, for it contains the explanation of all receipts and payments. If business is at all active, cash book balances resulting from these receipts and payments should be compared with the cash on hand at the close of the day. Any discrepancy should be accounted for at that time. There is the possibility that certain cash has been received, which the cash book does not account for, thus making cash "over;" or cash may have been paid which was not entered and cannot be remembered, thus making cash "short." In either case, if the bookkeeper cannot find the missing entry, he should enter a cash debit for the cash "over," or a cash credit for the cash "short," and post this entry to an account entitled Cash Short and Over.

Cash receipts are posted to the credit of such ledger accounts as explain the yield to the business; cash pay-

ments are posted to the debit of such ledger accounts as explain the cost to the business.

Note.—There may occur certain cash book entries which should not be posted to the ledger; for example, a combined journal and cash book entry like this: Machinery $500 to Notes Payable $400 and Cash $100. In this case, the complete entry would be made in the journal, and the payment of $100, after it is entered in the cash book, would be postmarked "J" to show that the corresponding charge for the cash credit of $100 is included in the charge to Machinery of $500, which is to be posted from the journal and checked out of the cash book. Likewise, any entries in both cash book and journal are checked out of the cash book to the journal, while the posting is done from the journal.

The cash book may be balanced and ruled daily, monthly, or at any other period suited to the requirements of the business.

74 B. The One Page Cash Book (see Form 10 B or 11 A) has a column for date at the left, followed by explanatory space, as wide as possible, with money columns for receipts and payments at the right. Just following the explanation, and preceding the money columns, are two columns, one for the names of the ledger accounts to which the amounts in the money columns are to be posted, the other for the postmarks. In the illustrated cash book, no distinction is made between currency and check payments. If a bank checking account is kept, a record of deposits, checks and bank balance should appear in the check stubs.

74 C. In the **Two Page Cash Book** (see Form 13 B) the cash receipts are entered on the left-hand, or debit page, and the cash payments on the right-hand, or credit page. On the debit side, the first money column is reserved for current receipts, which are extended by totals into the second column, when deposits are made; the amounts extended should agree with the deposit tickets. It is usually possible to deposit all cash receipts, and this should be done as a rule.

Note.—At the end of the month, any cash left over after banking hours, should be entered on a deposit ticket, and deposited separately from the receipts of the following day, thus enabling the bookkeeper to extend all receipts of the month into the second, or deposits, column.

On the right, the payments, which are all by check, are entered in the first column and extended into the second column, from time to time, to compare with the deposits. The difference between the second columns of the two pages is the balance of cash in bank.

Entries in the cash book should show from whom cash is received and to whom cash is paid. This is the most natural thing to write when paying or receiving cash, and definitely locates the persons dealt with. There should also be a sufficient explanation to show the purpose of the receipt or payment. After this explanation, the ledger title to be credited from cash received, or debited from cash paid, can be written or indicated in the space before the postmark column, at the convenience of the bookkeeper. Then the posting can be done.

Note.—Petty payments of coin or bills have no place in the main cash book. If placed in it, they confuse the bank account. Petty entries also require that time be spent unnecessarily in posting. Although such payments cannot be avoided, they should be provided for by the issuance of a check to the cashier (see entry Nov. 1) for a Cashier's Fund to meet petty disbursements, which he accounts for in the petty expense book.

Care should be taken, when the main cash book is balanced, to rule up both sides on the same writing line. Enter the balance in red, and carry it down in black ink. Since the balance is in the bank, the amount is carried down to the second column of the debit side.

74 D. The Check Stub contains a record of cash payments by check, (further record on the stub being unnecessary if made in a cash book) as explained in Prin. 74 C. As a check is not likely to be issued out of the check book without the stub being left, record for every payment is practically assured. In addition to that record, the check, passing through the payee's hands, with his endorsement, is returned to the maker from the bank as a receipt. These advantages of paying by check make it advisable that all disbursements, except from the Cashier's Fund, be made in that way. The entries on the credit side of the cash book are taken from the stubs.

Note.—When a check book is carried about, instead of being used in the office, it is generally advisable that the stub contain the record of deposits as well as checks, so that the balance can be forwarded on the stub for immediate reference. Forwarding balances on the stubs involves extra work and often gives rise to errors, unless very carefully attended to, so that the check book used in the office often does not contain any other stub record than that of the checks issued.

74 E. The Petty Expense Book, also called Petty Cash Book, as commonly used in a business office, is a two column scratch book containing a record in the debit column of checks issued to the cashier for petty payments, and in the credit column, entries of the payments made. The form is similar to Form 13 O. This record shows the disposition of the money, which is all that is desired. The account of the Cashier's Fund in the ledger is charged for the expense checks as issued. From time to time, as the Cashier's Fund runs low, the cashier makes a voucher for the amount expended, and receives a check which restores the petty expense fund to the original amount. The entry in the general cash book for this voucher is debited to Expense.

74 F. The Columnar Expense Book may be used to great advantage where it is desired to classify expenses under a number of special headings. Such a book contains one general column at the left, to which are posted from the cash book and from the journal, when the journal contains expense entries, all debits that are included in the general term expense. To the right of this column, are placed a number of columns, each headed to show a particular kind of expense. The entries that were posted to the first general column of this book, are, at the convenience of the bookkeeper or when he secures the necessary information, distributed among the several columns. The sums of the special columns should equal the sum of the first general column. The totals of the special columns may be posted in the special expense accounts in the ledger, which correspond with the headings of the columns, once a month or once a year. When it is not thought necessary to post the sums of the

expense columns at all, the total expense should be included in the trial balance as one item, which is explained in detail by the distribution shown in the separate columns of the expense book.

Examples.—(1) In household bookkeeping, a check for $20 (see Form 12 W, check No. 6) may be issued to a member of the family for family expenses. This amount would be posted from the original entry to the general column in the columnar expense book. Later on, the member of the family may return a ticket or memorandum showing that the $20 had been disbursed: for clothing, $10.80; for groceries, $6.59; for car fare, 25 cts.; for literature, $1.10; for a frying pan, 25 cts.; unaccounted for, or personal expenditure, $1.01 (see Form 12 X). These amounts can be distributed from the report to the various columns headed to correspond with the various classes of expense mentioned in the memorandum. The totals of these special columns in the expense book should equal the total of the general column. Any ordinary business house may distribute the expenses in a similar book.

(2) In a department store, it is advantageous to distribute the expenses to the departments by a columnar expense book, or detail sheet. In the model (Form 18 N, third illustration) a payment of $25 for advertising is distributed to departments 1, 2 and 5 in the proper proportions. Rent, light, and heat are distributed according to floor-space occupied; advertising according to newspaper space—all expenses according to the department benefited thereby.

74 G. All cash receipts, large and small, should be entered in the cash book on the day of their receipt. However, some discrimination must be used in deciding whether to enter them directly into the cash book when the cash is taken in, or to make some special record first. Retail stores usually record small cash sales in cash registers, and transfer the totals to the cash book at the close of the day. If a cash register is not used, a cash sales sheet will effect the same result. The device to record the cash sales depends on their number and the precautions thought necessary to insure a complete record.

74 H. The Columnar Cash Book, also called Special Column Cash Book, is a cash book containing special columns, in addition to the columns for the cash account.

A special column is used to segregate frequently repeated items that are to be posted to the same ledger account. Such items, standing alone, can be

added and their sum posted with less labor than would be required to post the items separately from a miscellaneous column. Thus, if there were a hundred entries on the credit side of the cash book, all charging Purchases account, the bookkeeper would be obliged to post them one at a time from a miscellaneous column, making one hundred operations. But if the amounts were carried to a special column for Purchases account, the total of that column could be posted in one operation.

A special column on the receiving side of cash is frequently advisable for Sales. Columns for accounts receivable, accounts payable, discounts, and expenses are often advisable.

When the complete ledger is divided into one general and one or more subsidiary ledgers, special columns are necessary for the items that are to be posted to the subsidiary ledgers. The items in such special columns are posted separately to the several accounts in the subsidiary ledger, and their total to the controlling account of that ledger, in the general ledger.

Thus, when the sales ledger is a subsidiary book, a column headed Accounts Receivable in the cash book (receiving side) will contain the amounts of all cash receipts, on book account, from customers. These entries are to be posted severally to the sales ledger, and their total to Accounts Receivable, (the controlling account) in the general ledger.

Likewise, when the purchases accounts are kept in a subsidiary purchases ledger, a similarly used special column in the cash book (paying side) would be headed Accounts Payable.

In the commission business, a similar column headed Consignors, segregates the payments chargeable to accounts in a subsidiary consignors' ledger.

Whatever special columns are included in a columnar cash book, there must be a general and a net cash column on the receiving side and a general and a net cash column on the paying side, in order to make the book easy to handle and examine: (a) the

receiving and the paying sides should have a general column in each, to show all amounts to be posted to the general ledger. Such general columns are headed, "general," "sundries," "general ledger," or "main ledger" by different bookkeepers, all meaning the same thing; (b) net cash columns are necessary in order promptly to determine the cash balance at any time. The net cash column on the debit side is headed, "net cash," "receipts," or "net receipts:" on the credit side the headings may be "net cash," "checks," or "net payments," etc. Different bookkeepers use different headings. Both the net receipt and the net payment columns are footed in pencil or red ink from time to time, when it is desired to determine the cash balance without balancing the cash book.

Other columns may be placed between the general and the net columns of either side, the number of special columns depending on the number of kinds of items the bookkeeper wishes to segregate from the general posting column for the purpose of posting by totals. For a fuller description and illustration of a columnar cash book, study the following paragraphs:

Form 18 C. The form given illustrates a columnar cash book adaptable to a wholesale or a wholesale and retail business, either departmentalized or not. A change in one or two headings will adapt it to a voucher system, to manufacturing, or to a commission business.

On the Receiving Side, beginning with column No. 1, is the date. Column No. 2 contains the name of the person from whom cash is received and any other explanatory matter. Column No. 3 shows the titles of such accounts as are posted to the general ledger, direct from the entry. Column No. 4 contains the postmarks. Column No. 5 shows the amounts to be posted direct to the general ledger. These items consist of a number of first entries, and, at the close of the month, the totals from columns 6, 7, and 8 which are transferred to it. Columns Nos. 6 and 7 are considered together; No. 6 shows the credits to customers who have remitted on book account, No. 7, the amounts of cash discount allowed them. For example, on Nov. 4, E. C. Horton receives credit, $86.72, for payment of his invoice of Nov. 2, (11-2). He was allowed $1.73, cash discount, having actually paid $84.99 in settlement of that item, as shown in the net cash column, No. 9. Column No. 8 shows the total of the miscellaneous cash sales made during the day. This total may be taken from cash registers, a

list of cash sales tickets on sales sheets, or otherwise totaled on first records before transfer to the cash book. Column No. 9 shows cash actually received, which has previously been entered for posting in one or several of the columns Nos. 5, 6, 7 and 8. Column No. 10 shows the extensions from column No. 9, agreeing with the deposits as made. On the last day of the month, any cash received after banking hours is entered on a deposit ticket, and deposited the next day separately from the receipts of the next day. By this means, the entire receipts of the month may be extended to the deposit column. The footing of the deposits column is the total cash debit.

When the cash book is balanced, the entries of the receiving side are proved correct by comparing the total of columns Nos. 5, 6, and 8 diminished by the total of column No. 7, with the total of the net cash column. When found correct, the totals of columns Nos. 6 and 8 are carried down to the general column, to be posted as credits in the general ledger, and the total of column No. 7 is carried to the general column to be posted as a debit in the general ledger.

On the Paying Side, columns Nos. 11, 13, 14, 15, and 16 are used for cash credits like the columns Nos. 1, 2, 3, 4 and 5 for cash debits. Columns Nos. 17 and 18 show debits to creditors on book account, and cash discounts allowed, the net remittances being entered in column No. 21. All payments are made by check, so that the column headed Checks is the net cash column. Items too small for a check are paid by the cashier out of a fund which is charged to an account in the ledger—see check No. 2. When the cashier needs more money for small payments, he turns in the voucher for the currency payments he has made, and takes a check for their amount, which leaves him with the original expense fund of $50—see check No. 13. Column No. 19 shows payments which will be added, and charged to Purchases at the end of the month. Column No. 20 shows all items chargeable to Expense. In a business sufficiently well organized to use this form of cash book, there would unquestionably be several subdivisions of the Expense account. It is impracticable to insert, in a compact cash book, columns for such subdivisions. To distribute the items in this column, post them to the expense book, where they can be distributed to the extent desired.

Before balancing the cash book, the disbursements are proved by adding the sums of columns Nos. 16, 17, 19, 20 and subtracting from the total the sum of column No. 18. The result should equal the sum of column No. 21. Columns Nos. 17 to 20 are carried to the general column for posting, as on the side of the cash book for receipts. The balance is then entered in the column No. 21, and after ruling and balancing, is carried below the ruling to column No. 10.

CHAPTER XV

THE SALES BOOK

75. A large share of the bookkeeping work in most concerns is given to sales records. Hence, any means of arranging and abbreviating selling records so as to reduce the clerical labor involved, results in an appreciable saving of labor. The matter of saving time and labor in connection with sales records is deemed so important, that a number of distinct systems have been devised. A suitable one for a given business may be selected from these. A system suitable for recording the sales of a retail grocery, or meat market, would be entirely inadequate for recording the sales of a retail lumber yard. Neither of these would be suitable for a wholesale grocery, dry goods or drug house. In this chapter, systems of sales records for typical conditions are discussed.

75 B. The ordinary record for merchandise sold (see Form 13 C), commonly called, in the office, the Sales Book or Order Book, is ruled much like a journal. Journal ruling will do very well for the purpose, although some of the vertical lines of the journal are not needed to record the sales. In the form, the date of the sale is at the left; the name of the buyer and the terms follow on the same line. Below, in the explanatory space, are the items extended into the first money column. The total is carried to the second column. Discounts allowed at time of sale should be deducted, before carrying the charge to the second column. If the sale is for cash, the amount is charged to the Cash account (see cash sale Nov. 2 or Nov. 24, charged to Cash on Form 13 B). If the sale is made on book account, the amount is posted to the debit of the customer's ledger account. (See charge sale Nov. 7 posted to 13 I.) If the merchandise is sold for a note, the amount is charged to Notes Receivable ac-

count, in the same manner as a charge sale is to an individual account.

The sales book is footed and the total, at the end of the month, is posted to the credit of Sales account. (See total, Nov. 30, posted to Form 13 F.) Thus, if the sales book has the correct total before final posting, there will be entered in the cash book and posted to the ledger an aggregate of charges equal to the credit posted to Sales.

75 C. The Duplicate Sales Book contains blank bill forms, one or several to the page, perforated at the margins, so that the bills may be removed and delivered to the customers. The sheet under the bill to be delivered, is a duplicate, to be retained and posted from, as from an ordinary sales book. The copy of the bill delivered is made on the duplicate sheet by means of carbon paper inserted between the sheets. This enables the billing clerk to make the bill and the office record at one writing. The duplicate sheet is often on paper of a different tint from the bill sheet, so that they may be distinguished readily.

This system is good in any bulk merchandising or service business, where the items billed are comparatively uniform in number. Other systems of duplicate billing are described later.

75 D. Shopkeepers' Bill and Charge System. Grocers, butchers, and other shopkeepers frequently have regular customers to whom they sell daily on account. In order to avoid the labor of posting the daily charges to customers' accounts, it is quite common to keep a separate bill and charge book for each customer. Such a book contains a number of sales slips alternating with record slips for carbon duplication. When an order is filled the sale slip shows the items, and these, as entered, are copied on the duplicate by means of a carbon paper device. At the top of the money column of a charge slip and duplicate, the balance due has been carried from the previous slip. This amount is added in with the extensions of the present slip, and the total carried forward to the following slip and duplicate. Thus the amount owed by the customer is

always apparent both on the bill and the duplicate, whenever an order is filled. If the customer makes a payment on account, the amount is entered on the following slip and subtracted from the balance carried forward. (See Forms 17 F and 17 G.)

The bill and charge books for the several customers are arranged in a case in the order of the customers' names taken alphabetically.

The total of accounts receivable may be found at any time by adding the balances shown in these books.

75 E. In the wholesale business, where orders are taken largely by traveling salesmen, or from the mail, and where the great volume of business demands close daily attention to profits and expenses, the following described system is in general use:

The orders for goods, whether coming from traveling salesmen, from the mail, or by telephone, or from a customer at the counter, are placed on uniform order blanks, showing buyer, quantity of each item, prices, routing, and terms. The order blanks also have memoranda spaces to designate the salesman who took the order, the credit man who passed it, the shipping clerk who filled it, the bill clerk who billed it, the carrier by which it was forwarded, and the department from which the goods were taken, if the stock is in departments. These spaces are filled by the initials of the responsible persons through whose hands the order passes while being disposed of.

After the order is approved by the credit man, it is entered in an order register from which it receives its number. This order register is kept as a check on the person or department that fills the order.

When filled, the shipping clerk places his initial in the blank space of the sheet provided for that purpose, and returns it to the office where it is marked off the order register. The order sheet is then passed to the bill clerk who makes out the bill for it, which is mailed to the customer. After the bill clerk has finished the bill

ing, the order sheet is passed to the bookkeeper, who posts the charge to the debit of the customer's ledger account. After posting to customers' accounts the loose order sheets are assembled, placed in numerical order, to make sure that none are missing, and bound in a loose-leaf binder.

At the close of the month, the sheets in the loose-leaf binder are totaled, (an adding machine should be used where possible) and the total posted to the credit of the Sales account; or if the store is departmentized, the credits would be divided among the various Department Sales accounts, through sales detail sheets. The debit amounts to balance these credits, have already been posted to the customers' accounts in a complete ledger, or, if the customers' accounts are kept in a subsidiary ledger, the total sales would be posted to the debit of Accounts Receivable (the controlling account) in the general ledger.

Note.—Before placing these order sheets in a binder, if daily profits are to be computed, the sheets will be passed to the profit clerk, who, by comparison of cost and selling prices, will compute the profit on each item sold, and show from their total, the daily gross profit on sales.

When the orders are sent in by different salesmen, the sales manager can satisfy himself as to the amount of sales each salesman makes, by assorting the sales sheets and entering the amounts in columns headed by salesmen's names.

CHAPTER XVI

THE PURCHASES BOOK

76. The records of merchandise bought are kept in different ways, depending on the volume, terms of purchase, and other circumstances, as well as on the requirements of the general accounts affected. For example, the records of merchandise bought in a department store must be kept in different form from those of a store not departmentized. Some kinds of business require constant ready reference to past itemized invoices, when future orders are placed; some do not. Some require a method for determining maturity dates of invoices, in order to take discounts; some do not. The following described systems for records of trading purchases are suitable for most conditions:

76 B. The ordinary record for trading goods bought (Form 13 D), called purchases book, bought book, or invoice book, contains the buying records entered in form similar to the records in an ordinary sales book, showing date, from whom bought, terms, amounts of items extended in the first column, and the total amount in second column.

The amount of an invoice bought on account is posted to the credit of the seller's account (see entry Nov. 2, posted to Form 13 H); the amounts of merchandise bought for cash are balanced by entries on the credit side of the cash book (see entry Nov. 6, balanced by cash payment in Form 13 B); the amounts of purchases for notes or acceptances are posted to the credit of Notes Payable.

The purchases book is footed at the end of the month, and the total is charged to Purchases account, in the ledger. (See total Nov. 30, posted to Form 13 G.) Thus, if the purchases book is footed correctly before posting, there will be carried to the cash book and

ledger, credits that, in the aggregate, will equal the total carried to the debit of Purchases account.

76 C. Buying Records Suitable for Extensive Business. In most concerns, trading purchases are made on account subject to discount for early payment. Points in the record to keep in mind are (1) to give credit to the firm from whom bought on account (if not on account, credit Cash or Notes Payable); (2) to make a monthly charge to the Purchases account for the total.

In order to insure payments without loss of discount or credit, a record should also be kept of the maturities and discount dates of the invoices payable. Also, the invoices themselves should be kept where they are readily accessible for reference.

When the invoice is received, the following steps are taken for its disposal:

(1). Compare the items in the invoice with the actual goods received, checking off the items that agree. Place the pencil check marks before the items. The check marks show that the goods were actually received as billed, that there were no shortages or omissions.

(2). Verify the extensions, that is, see that the multiplications and additions on the bill are correct. Indicate these verifications by check marks also.

(3). See that the goods received agree with your order as to terms, items, prices and samples.

(4). If any errors are found in the invoice, report such errors at once to the seller, asking for a corrected invoice, or other adjustment as the case may require. Do not post any entry until the adjustment is completed.

(5). If the invoice is found correct, indicate its verification by writing "O. K." or other words signifying that it is ready for entry.

(6). The verified invoice should be given a one-line entry in the purchases register, from which it is posted to the creditor's account, if a credit purchase.

Note.—In department bookkeeping, it is customary for wholesalers to enter the full amount of the invoice in the invoice ledger, allowing the discount, when paid, to go to an account of Purchase

Discounts. In a retail department store, the discounts are usually deducted and the bills entered at the net amount. The reason for this is, that the manager of each department (also called the buyer) is considered entitled to show profits for his department, based on the best price, including discount, that he is able to secure on his purchases. In the latter case, if the management of the store should fail to take advantage of discounts—an unusual occurrence—this discount would be chargeable to Office Expense, and not to the cost of purchases for the given department.

(7). After the invoice is entered and numbered, it is placed in a file with other invoices from the same firm.

Note.—Invoices are sometimes pasted into invoice books, from which they are posted to the accounts. This kind of invoice book is going out of use, because it is necessarily bulky, inconvenient, and difficult to post from; besides, the books that have been filled occupy much storage space.

(8). When an invoice is paid, it is taken from the file and sent to the creditor to be receipted and returned. When a receipted bill is returned, it is again placed in the file. Remittances may be made without sending the invoices with the remittance; in that case, a receipt should be returned, which is filed.

(9). At the close of the month, the footings of the invoice register are charged to Purchases account (or to department accounts if these are carried). The credits have already been posted to the various accounts payable. If the accounts payable ledger is subsidiary, the total is posted to the proper controlling account in the general ledger.

76 D. The Voucher System for accounts payable, as commonly used, provides a substitute for ledger accounts with creditors by using voucher forms on which the amounts payable are entered, each form describing one invoice or payment.

When an invoice payable is allowed, a blank form called a voucher form, or a voucher jacket, is filled in with the written memoranda necessary to describe the invoice, and to show the account or accounts to be charged for the purchase. The form is given a one-line record in a vouchers payable register. This is a columnar special journal, having debit columns headed to show the different ledger accounts debited for the several purchases which may include merchandise, material for

manufacture, expense material, services or other items. A credit column, headed Vouchers Payable, shows the amounts of all vouchers. The lines in the voucher register are numbered, and the numbers are transferred to the vouchers, as the latter are recorded. After record, the invoices are folded in the voucher jackets, and placed in a clip or file, in the order of their maturity, those maturing first being at the top.

When an invoice is to be paid, the voucher jacket is taken out of the clip and sent, with the check or draft, to the payee. The latter is expected to fill in a blank receipt printed on the voucher jacket, and return it. On the return of the voucher jacket, it is placed in a file in numerical order with the other receipted vouchers. The invoice is placed in a separate file, that contains all the invoices from the given firm.

By this means, the unpaid invoices are always before the bookkeeper in the order of their maturity, and receipts for paid invoices can be referred to by number. There is a separate file for each trade creditor, where the inv ices themselves are kept, and where they are easily accessible.

When the invoices are not numerous, the same practical result may be secured by stamping on the invoice itself, the form for the voucher description required, and handling the invoice in like manner as a voucher jacket is handled.

The vouchers payable register is footed, ruled and posted monthly. The several totals of the charge columns are posted to the debit of the ledger accounts, and the credit column total to the credit of Vouchers Payable. The Vouchers Payable account is equivalent to Accounts Payable, as the latter is kept when the voucher system is not used. When a voucher system is used, the cash book requires a column on the paying side for Vouchers Payable. Thus, in Form 18 C, the heading of column No. 17, Accounts Payable, would be changed to Vouchers Payable.

CHAPTER XVII

THE INVENTORIES BOOK

77. The Inventories Book presents a record of all floating assets and liabilities under the dates when taken. In a small business, inventories may be listed in the journal; but in an extensive business, a separate book is necessary, because of the page space required to list a large stock of goods, also because if kept in a separate book, inventories for different accounting periods are easily accessible for comparison.

In making the inventories, both assets (Prin. 77 B) and liabilities (Prin. 77 C) are considered.

77 B. Among asset inventories, the most important is that of trading goods in stock, which is entered, as shown in Form 4 H, to show the quantity and value.

In a manufacturing business, a list of materials in stock, to be used in manufacturing, is likewise entered in the inventories book, to show quantity on hand, and value.

It frequently happens that material or labor not consumed, that has been bought and charged to expense, is carried over from one accounting period to the next. This, if of considerable value, should be entered as an expense inventory.

Interest earned by the business, but not yet received, should also be entered in the inventory book, to show the amount accrued, which is a part of the earnings for the period.

Any other accrued earnings of the business, which have not been entered, but which have an asset value, should be listed in the inventories book.

The total asset inventories are shown in a journal entry (see Form 14 D) debiting Inventory account with the entire amount, and crediting Trading account for trading goods, Materials account for materials,

Expense account for value remaining that had been previously charged to expense, and Interest account for interest earned and included in the inventory.

77 C. **Liability Inventories** consist of otherwise unrecorded amounts payable at the close of the accounting period. These should likewise be entered in the inventory book. Among them, are interest accrued on bills payable, and wages earned by employees but not paid. The purpose of entering these in the liability inventory is to keep an account of the losses assignable to the given accounting period, even though they have not been paid.

The total liability inventories are shown by a journal entry charging Interest, Expense, or whatever titles would be charged had the items owed been paid, and crediting Liability Inventories account, by items. (See Form 14 N, transferred to 14 D.)

77 D. **Depreciation** is taken into account at the time the inventories are entered. A record of the amount and percentage of depreciation may appear with the other items, in the inventories book.

The amounts of depreciation are shown by a journal entry debiting the proper operative account, and crediting Reserve for Depreciation. (See Form 14 N transferred to 14 D.)

CHAPTER XVIII

SPECIAL BOOKS

78. When several persons are doing the bookkeeping work in a single office, it is generally necessary to divide the work of making first entries among assistants, each one recording a certain variety of transactions belonging to his division of the work. These divisional records are made in special books, so arranged that the aggregate results of the transactions recorded in any one book may be summarized on tickets for the head bookkeeper, who transfers the entries from the tickets to the posting books.

Special books are, to a large extent, ruled and printed to suit the business where used, new forms being made as needed. They are necessary in every large office. In a bank, the following special books are needed: (1). Individual ledger, in which the individual bookkeeper enters the deposits and checks and extends customers' totals. At the close of the day he passes to the head bookkeeper tickets crediting Deposits for the total of the day's deposit slips, and charging Deposits for the total of the day's checks. (2). Loan and discount register, in which the discount clerk records all paper discounted by the bank. At the close of the day, he passes to the head bookkeeper, tickets charging Loans, Discounts, and Accrued Interest, and crediting Discount. (3). Draft register, in which the draft clerk enters the record of drafts sold. Tickets are made crediting the drawee banks for the totals of drafts sold and Exchange for the total of exchange collected from sale of drafts. (4). Remittance register, in which the remittance clerk enters all drafts and checks cashed during the day, which are sent to correspondent banks for credit. He passes to the head bookkeeper tickets charging the banks to which remittance is made. (5). Collection register,

in which the collection clerk enters the paper left for the bank to collect. As he collects the items, he makes separate tickets crediting the persons for whom collected, (if a depositor, through the individual ledger; if an out-of-town person, through the draft register) also a ticket crediting Collection.

A local agent of a railroad company makes the records pertaining to his office in special books and forms: among them, the local cash book, freight forwarded book, freight received book, ticket summary book, etc. Reports or abstracts from these books are forwarded to the general offices of the company, and from these the general books are compiled.

In the manufacturing business, the various elements of cost entering into the product as a whole, or by the piece, are collected on various special forms and books as the work progresses. The final results or general totals of these daily records are to be transferred to and debited in the posting books.

In a retail store, the cash sales are first recorded in cash registers and sales sheets, from which the aggregates are carried to the cash book.

A traveling salesman makes first records of his expenses in a pocket expense book, from the total of which a ticket is made for entry in the office cash book or journal.

From the above examples, it is readily seen that all special books should be preserved as a part of the records of the office.

CHAPTER XIX

AUXILIARY BOOKS

79. Auxiliary books are books containing records and reminders to aid in the conduct of the business, but nothing that is to be posted. They have no articulation with the posting books, and can be added to or dropped from an office system when desired. Some common auxiliary books are mentioned here:

The notes or bills receivable book is arranged for recording notes and accepted time drafts receivable. Each item is described on one writing line divided into spaces to show the note number, maker's or payer's name, to whom given, date of paper, term, maturity, rate of interest, and other description, if any.

The number in the record is written on the note, and the note is thereafter referred to by number. This book exhibits, in compact form, the information about all notes held by the concern. Where notes are received only at intervals, there is no very good reason for connecting this book with the posting books, as the posting entries can be made direct from the transactions. But when notes are received actively, it is better to make this a posting rather than an auxiliary book and transfer the debit to Notes Receivable from it by daily totals, as is done in banks. (See Prin. 78.) When the collections from payment of notes are very active, the credits of Notes Receivable may be posted to the bill book from the cash book, thus making the notes receivable book a subsidiary ledger, called the note ledger.

The notes payable book is similar to the notes receivable book and is governed by the same considerations.

A tickler is a book subdivided into spaces, each space to contain memoranda of the maturities payable or receivable on a given date. The spaces are dated, begin-

ning with January 1, January 2, etc., and extend through the entire year. A memorandum of a note or other obligation due on a future date, is placed in the space reserved for that date. Maturities receivable may be written in black ink and maturities payable in red ink, to distinguish them. This book is merely a reminder kept for daily reference in order that no collection or payment may be overlooked. When the items are attended to, they may be checked off.

A very practical form of tickler for use when the items of any one day are not very numerous, consists of a chart, ruled in twelve vertical columns, and thirty-one horizontal lines. The vertical columns should be headed by the months beginning with January, ending with December. The lines should be numbered 1, 2, 3, etc., to 31, to allow one line on the page for each day of the month. Reminders for given dates during the year can be written in at the intersection of the lines and the vertical columns; thus a reminder for April 10, would be written where the fourth vertical column crosses the tenth horizontal line.

The advertising list is a book containing addresses or information about prospective or regular customers to whom advertising matter is sent. The addresses are arranged on the scheme of classification, either by surnames or towns, alphabetically arranged throughout the entire list, or arranged by states, or by other geographical sections. Such lists must be constantly revised, by adding new addresses, and by dropping off addresses of undesirable firms. Care in keeping this list correct and reliable is usually appreciated by any business manager.

Any list that is being constantly revised, by adding or dropping names, is most advantageously kept on cards, one card for each name.

The customers' liability ledger is an auxiliary book in which a credit man enters such information as he gathers concerning the debits already contracted by customers. The facts therein recorded are of value to him in determining the amount of credit to be allowed in future dealings.

There are many kinds of auxiliary books. Their scope and general purpose may be gathered from the foregoing examples.

CHAPTER XX

THE LEDGER

80. In this division we discuss the ledger with reference to its use by the bookkeeper. The ledger plan of accounts has been discussed in Prin. 21-21 C.

The ledger may contain all of the accounts of the business in one cover, or it may be divided into several books each containing a certain section of the accounts. (Prin. 80 B-C.)

The ledger may consist of a bound book, a loose-leaf book, or a case of cards. Each of these forms have advantages depending upon conditions. (Prin. 80 F-G-H.)

Whatever the form, a bookkeeper should carefully consider the makeup of his ledger in order to provide for (1) A convenient arrangement of accounts for posting, making trial balances, and statements (Prin. 80 B); (2) sufficient space for all entries likely to be made (Prin. 80 I); (3) indexing of accounts for prompt reference (Prin. 80 E); (4) size and binding to suit the kind and number of accounts.

80 B. The Complete Ledger contains all of the accounts in one book, with the exception of the cash account when the latter is kept in a cash book.

In the ordinary arrangement, real accounts come first and the nominal accounts follow.

The part containing the real accounts comprises the section of assets and liabilities with their summaries in proprietorship accounts, and the part containing the nominal accounts, the section of incomes and expenses with their summaries in the Profit and Loss account. These two parts belong in one book, although occasions arise where they are kept under separate book covers.

In the first section, the asset accounts are placed first, these being followed by the liability accounts. Of the asset accounts, the quick assets are given first place,

followed, in order, by the assets less easily convertible into cash; then come those most remotely convertible, and finally those that are not convertible at all. Following these are liability accounts, in like order, followed by proprietorship accounts.

In the second section, the order of accounts is not so easily outlined, owing to the great diversity in kinds of income and expense. The following order is good in a trading or manufacturing ledger: (1) Sales, together with any accounts that close into sales, such as Return Goods, Allowances, Sales Discount; (2) Purchases, Manufactures, or other accounts showing cost of sales; (3) Trading, in which Nos. 1 and 2 are combined to show gross profit; (4) Business Expenses; (5) Secondary Incomes and Expenses; (6) Profit and Loss.

Note.—In a complete ledger, it is not easy to reserve space for the accounts payable and receivable in the order given above, although that is the order occupied by them in a financial statement, or by their controlling accounts in a general ledger (Prin. 80 C). For this reason, accounts payable and receivable are given the remainder of the ledger, following the Profit and Loss account, the accounts payable being given a number of pages that can ordinarily be determined, and the accounts receivable all of the remainder.

80 C. General and Subsidiary Ledgers. As a business increases in volume, it becomes more satisfactory to divide the complete ledger into one general ledger and one or more subsidiary ledgers.

A subsidiary ledger contains any group of accounts of the same class, when the accounts are too numerous to find place in a complete ledger. Thus, all the accounts receivable may be placed in a subsidiary ledger; likewise, the accounts payable, the accounts of notes receivable, of notes payable, of shipments, of consignments, of mortgage loans, and other kinds of accounts, as they become numerous, may be taken from the complete ledger and placed in separate subsidiary ledgers.

When a subsidiary ledger is kept, this ledger is represented in the general ledger by a controlling account. This is an account that shows the aggregate of debits and credits posted to a subsidiary ledger. The

aggregates of postings to subsidiary ledgers are usually computed and posted to the controlling accounts monthly. By including these aggregates found in the controlling accounts, a trial balance of the general ledger may be taken without reference to the subsidiary ledgers.

A separate list of the accounts open in any subsidiary ledger is verified by comparing the total balances of accounts, with the balance of the subsidiary ledger's controlling account in the general ledger, and should equal it. The following paragraphs explain in detail the kinds of accounts that would be taken out of the complete ledger and placed in subsidiary ledgers or other books having the same relation as subsidiary ledgers. These accounts are considered in about the order that would probably be followed in taking them out of the complete ledger because of expanding business.

80 D. Cash entries are ordinarily entered in a cash book, instead of in the cash account of a ledger. Frequently a controlling account, entitled Cash, is kept in the general ledger. To this controlling account, the bookkeeper posts monthly, charging the total cash receipts and crediting the total payments. In taking a trial balance, the balance of the controlling account can conveniently be used, instead of referring to the cash book itself.

It is usual, however, to regard the cash book as an account, under separate cover, yet belonging to the general ledger and requiring no controlling account. When thus kept, a trial balance would require that the balance be taken from the cash book, along with the balances of the accounts found in the ledger.

Accounts receivable may be kept in a subsidiary ledger called "Accounts Receivable Ledger," "Customers' Ledger," "Sales Ledger," or some similiar name, and the controlling account may be entitled, Accounts Receivable, Trade Debtors, or the title may be the name of the ledger itself.

The customers' debits are posted to the customers'

accounts in the subsidiary ledger, and the monthly totals of these debits are posted to the debit of the controlling account in the general ledger. The customers' credits for the month are posted to the customers' accounts in the subsidiary ledger, and the monthly totals of the credits are posted to the credit of the controlling account in the general ledger.

Accounts Payable, Notes Receivable, Notes Payable, Capital Stock, Consignments, Shipments, Agents' Accounts, Branch Store, are some of the controlling accounts that may be kept in general ledgers to represent the named classes of accounts kept in subsidiary ledgers, as explained in detail in foregoing paragraphs.

80 E. The Index. The page of a ledger account is promptly located by means of an index. The index may be one or more sheets bound in the ledger, on which the account titles, followed by the ledger page, are written in alphabetical order (Form 12 B); or it may be a whole book in itself with capacity for as many as 100,000 names. In large books the names are arranged according to the first two or three letters of the surname, as are the words in a dictionary.

The bookkeeper should make it a rule to index each account when it is opened.

Loose-leaf and card ledgers often do not require any index, because the sheets or cards can be arranged in alphabetical order, enabling one to locate an account from its place in the ledger without need of a special index.

80 F. Bound Ledger. The bound ledger, under certain conditions, has advantages over the loose-leaf or card ledger. It is especially good as a general ledger, for this book contains, in the main, monthly summaries, which do not require much space, but which are used for reference long after their date. A bound general ledger can be arranged to last through the entire history of a business. If all the leaves remain in a bound book, we can easily assume that the records are intact.

A bound complete ledger of a small business is often better than the loose-leaf form, because it costs less, does not require any transfer apparatus, and can be kept in one cover. This is worth considering, especially in an office not well provided with conveniences for the safe-keeping of office books and papers.

80 G. The Loose-Leaf Ledger consists of a binder, and the sheets, the latter being securely fastened in, although removable at pleasure. Since the leaves can be rearranged so as to keep them in any desired order, the loose leaf ledger has replaced the bound ledgers wherever a given order of accounts is to be adhered to in either general or subsidiary ledgers. Subsidiary ledgers especially contain many accounts which may either extend unexpectedly over several pages of space, or else may be closed at any time. A bookkeeper would not find it convenient to have a great many closed accounts filling the working ledger, nor can he, in the case of an account that has overrun the space provided for it, conveniently forward it to any odd page where he might happen to find room, as was done before loose-leaf ledgers were used. Also, it adds considerably to a bookkeeper's work to index numerous accounts and afterward have to locate them through the index. With a loose-leaf ledger, the bookkeeper can remove closed accounts entirely, thus keeping the whole ledger for active accounts. If an account runs over the leaf provided for it, another leaf can be inserted and the account continued. The bookkeeper can file all removed leaves in Transfer Binders. This is considered care sufficient for settled accounts that are kept merely for reference in the matter of future credit information. As the transferred accounts can be inserted where desired, they may be in alphabetical order by surnames ,or towns, or in any other order that may be more convenient for self-indexing.

80 H. The Card Ledger consists of ledger accounts kept on cards of suitable size and arranged in drawers. The cards can be arranged on any plan possible with a loose-leaf system, and are more easily sorted from one

division to another. When there are a great many accounts, and it is desired to make statements, or otherwise go over them in a very short time, the cards can be divided among many clerks, who can each do his share of the work, and thus complete the whole quickly. The card ledger is convenient for transient accounts, which are to be referred to by a number of persons at the same time, during the day's transactions. It is also convenient for accounts with customers who are moving about in territories for which separate sales ledgers are kept.

80 I. Space for Ledger Accounts. If a bound ledger is to be opened, consider the number of pages in the entire ledger and divide that space among the accounts, giving each account the number of pages you think it will need by the time the entire ledger is filled. If you have a former ledger to guide you, allow space as seems justified by past experience. In assigning account space in a general ledger, remember that controlling accounts, as a rule, are posted but once a month, so that from one to three lines per month will suffice. On a basis of three lines per month, 36 lines would be enough for a year, or 360 lines for 10 years. This can easily be reduced to pages. Other accounts may require more or less guessing.

If loose-leaf or card ledgers are used, allow, as a rule, one account for each leaf or card, inserting additional leaves or cards as needed.

80 J. Posting to Ledgers. Posting comprises a large part of the bookkeeper's work. Any plans that promise increased accuracy or certainty are worth considering, because they may save time. Bad methods of posting, or the absence of a method, may become a habit with a bookkeeper, causing the loss of hundreds of hours of his time in the course of a year, and greatly diminishing his earning power.

When a bookkeeper does not know, from location or from memory, the pages of his ledger accounts, the following method will save time and mental effort. Be-

fore beginning to post, write, from the index, the account pages in the postmark columns of the posting books, opposite all amounts to be posted. Then post all debits, beginning with the first pages of the ledger and progressing to the last, so far as this can be done on a single page of the posting book. Indicate posting by a check mark. It is not a very good plan to write page figures in the posting books during the process of posting, because the page figures (relatively unimportant) would receive attention when the mind should be highly concentrated upon the smallest possible area of effort. Try to carry as little as possible in mind, except what you are actually writing in the ledger, and where you are writing it. The figures must be absolutely correct and placed in the right accounts. After you have posted all debits, glance back over all pages of the posting book, to see that no entry has been overlooked. If you always make the check mark immediately after posting the entry, you can know that the omission of a check mark means a failure to post the item not checked.

Post the credits in the same way. Remember that in posting, the habit of doing the same process in the same way is your best protection against errors. If you are not methodical, you may make a slip in posting, in a second, that will cause you hours to discover.

If you know the pages of the ledger accounts, or if you use a self-indexing ledger, it is a waste of time to place the ledger pages in the post mark column of the posting book. A check mark is sufficient.

80 K. Verifying the Posting. After all debits and credits are posted to the accounts in a double entry ledger, it is customary to verify the work monthly, or oftener if thought advisable. Since the sum of all debits is equal to the sum of all credits in the posting book, it follows that after the posting is completed, you must have posted an equal aggregate of debits and credits into the ledger accounts; that is, that you have not disturbed the equality of the total ledger debits and

credits. The ordinary proofs of posting are given in Prin. 80 L-M.

80 L. **A Proof Sheet** is the easiest means of assurance that the ledger is in balance. This consists of a list of all the debit and credit account footings arranged in two columns. The equal totals of debit and credit columns tend to show that there was no oversight in posting the entries. (See Form 12 I.) The proof sheet is quickly taken on two-column paper, or, if an adding machine is at hand, by listing the debits first, then the credits.

80 M. **The Trial Balance** is a list of the open account titles, with the balance of each account placed in either the left or the right column accordingly as it is a debit or a credit balance. To make a trial balance requires more time than to make a proof sheet because it is necessary to compute the balances of the accounts, whereas, in the proof sheet only the totals are used. The equality of debit and credit totals in the trial balance, shows the ledger to be in balance.

Some account totals of a statistical nature, as well as such account balances, may be of interest to the one who examines a trial balance. Such totals may be placed in the explanatory space before the money columns, as illustrated in Form 12 J.

Note.—A great many accountants call a list of account titles with the debit and credit totals (instead of the debit or credit balances) a trial balance. As a matter of convenience in the discussions arising in this book, the term "trial balance" should be taken to mean a trial balance of account balances, otherwise the term "proof sheet" or "trial balance of totals" is used.

80 N. **When the Trial Balance Does Not Foot Equally.** (See Prin. 83 C.)

80 O. **Closing the Ledger** involves three important steps: (1) the re-adjustment of the real accounts so as to exhibit the assets and liabilities of the business at their revised valuation at the close of the period; (2) the transfer of the balances of the nominal accounts into Profit and Loss, which shows as a result a net profit or a net

loss; (3) the distribution of the net profit or loss into such accounts as may be determined by the owners.

The various steps of ledger closing are given in Prin. 72 P-72 R.

80 P. Readjustment of Accounts. When closing the ledger, the following readjustments should be made as far as applicable:

The debit balance standing in Inventory account from the beginning of the period should be carried to operating accounts as illustrated in Prin. 72 G, Example 31.

The inventories taken at time of closing should be debited in Inventory account and credited in operating accounts as illustrated in Prin. 72 G, Example 32.

The credit balance standing in the Liability Inventory account should be carried to operating accounts, as illustrated in Prin. 72 G, Example 33.

The liability inventories taken at time of closing should be debited in operating accounts and credited in Liability Inventory account, as illustrated in Prin. 72 G, Example 34.

The depreciation for the period should be debited in operating accounts and credited in reserve or property accounts, as illustrated in Prin. 72 G, Example 35.

80 Q. Closing Nominal Accounts. After readjustment, all nominal account balances should be carried, either indirectly as when Inventory, Purchases and Sales are closed into Trading, which in turn is closed into Profit and Loss, or directly into Profit and Loss.

Profit and Loss should be closed into an account or accounts of proprietorship.

After closing, all nominal accounts should be ruled.

80 R. Balancing Real Accounts. The closing of the ledger does not necessitate balancing the real accounts, but it is advisable to balance cash, accounts of proprietorship, and all controlling accounts.

Accounts in which property is listed should not be balanced, but remain open until the property is disposed of.

CHAPTER XXI

AUDITING

81. Auditing involves a review of books and records with attention to their supporting vouchers, or other evidences of their correctness, accuracy or adequacy for the purpose intended.

The special purposes of an audit may be either one or more of the following:

(1). To prove the mechanical and mathematical accuracy of a set of books. (Prin. 83.)

(2). To show that the entries and accounts are true records of actual transactions and existing values. (Prin. 84.)

(3). To show fraud, or absence of fraud, on the part of officers or other employes of the business. (Prin. 85.)

(4). To show that books and records kept are suitable, economical and complete. (Prin. 86.)

(5). To show, or to verify, an exhibit of the worth of the business and its earning power, for the benefit of the owners or of prospective investors. (Prin. 87.)

81 B. A general auditor should be a bookkeeper, accountant and business man, well informed in commercial law and business mathematics; and withal, have a faculty of applying sound business principles to existing conditions.

A special auditor should be familiar with the business, books and conditions of the particular concern which he is to audit.

In making an audit, there is a certain order of procedure to be followed, as in all other matters pertaining to business records. To follow this order may be all that is necessary, or it may be only the beginning for additional investigations, which may be found necessary because of the insufficiency of the records at hand.

A bookkeeper may keep a set of books in such a way

that an audit is merely a formality, or they may be kept in such a way that an auditor will be obliged to rewrite the records from the start. Good bookkeeping is the forerunner of inexpensive auditing.

82. General Conditions. Before undertaking an audit, the auditor should determine whether his examination is to cover the entire period from the beginning of a business, or from a given date. If an audit between given dates is undertaken, the prior records are the subject of inquiry only as they affect the audit period.

82 B. The auditor should first determine the purpose of the audit, which may be one or more of the five purposes specified in Prin. 81. His preparation should be in accordance with the purpose.

82 C. The auditor should study the conditions of the business and estimate the volume and kind of its business operations, consider the ordinary terms of purchase and sale, investigate manufacturing processes, if any, and the conditions under which the business is operated. He should then make an outline of a system of accounts and books suitable for the business. Having in mind what the books should be, and what they should show, he should make a complete list of the books that actually are kept, separating the principal books from the auxiliary books.

82 D. An auditor should prepare a record, setting forth his agreement as to the general conditions of the audit, and covering the important matters connected therewith.

An auditor's record may contain abstracts from the books; totals, proofs, and computations to verify the books; or it may extend to an entire re-writing of the books, in skeleton form, from the original data. It should be so arranged as to exhibit any vital points that are not brought out in the bookkeeper's records.

82 E. The amount and kind of work demanded of an auditor depends on the amount and kind of work previously done by the bookkeeper. His researches may include the following: (1) A rearrangement of vouchers

and substitution of missing vouchers; (2) a comparison of the cash account with the bank account; (3) a comparison of the accounts of customers and creditors with the book records of the persons with whom the accounts are kept; (4) a comparison of the account of invoices with the goods actually received; (5) the substitution of a correct account analysis for a faulty one.

83. The Audit for Mechanical and Mathematical Accuracy is to show that transactions have been properly entered; that the proper accounts have been correctly debited and credited; and that the resultant trial balance is correct. Proceed as directed in 83 B to 83 D.

83 B. Compare the vouchers with the entries. The vouchers consist of invoices, receipts, legal papers, charge and credit tickets made in the office, or any other supporting records. A note should be made of any entries for which no vouchers are found. They should be supplied, if practicable, or attention to their absence should be called in the auditor's record.

83 C. When the proof sheet or the trial balance does not foot equally, there is an error in the ledger or in the proof sheet, or there may be several errors to be discovered. If the bookkeeper has been careful and accurate, and has reviewed all footings and transfers to the trial balance, and if the audit period is short, one may proceed on the assumption that the discrepancy is in one item, or at the outside, very few items. To locate these, proceed as follows:

(1). Find which side of the ledger is short and the amount of the discrepancy.

(2). If the error is a number like 1, 10, 100, 1000, or contains a single figure with or without ciphers, review the additions.

(3). Review post marks on the short side, to discover any omissions in posting.

(4). Look for the exact amount of the discrepancy on the short side of any posting books. An entry may have been overlooked in posting.

(5). Look on the short side of the posting books for one-half of the discrepancy (if any even number) which may have been posted, by mistake, to the long side.

(6). If the discrepancy is divisible by 9, any of several transpositions may be suspected; thus, 29 for 92, discrepancy 63; $51.60 for $60.51, discrepancy $8.91; $29.64 for $24.69, discrepancy $4.95; 10 cts. for $10, discrepancy $9.90, etc. In looking for a discrepancy in the cents column, give no attention to figures in the dollars column.

(7). See if the ledger was out of balance at the beginning of the audit period. This can be found by comparing the accounts, as they formerly stood, with the last previous trial balance, if there was one. It has happened many times that an error in a previous trial balance was discovered, corrected in the trial balance, but not in the ledger account, with the result that the next subsequent trial balance was wrong.

(8). See if the posting-books are in balance for the audit period. A journal, sales book, cash book, voucher register, or other posting-book (especially if it has many columns) may not be in balance as to debits and credits, with the result that the ledger, after posting, could not possibly balance.

(9). Check back the entries. This means to review every item posted during the period. Although checking back probably involves more labor than all of the above methods, it may often be advisable to do this first, especially if the bookkeeper's work is evidently lax or careless. Note that it is unnecessary to check back the work if the method in Prin. 83 D is followed.

To check back, arrange all posting books in a given order, and, as a rule, check first, through all the posting books, the entries that have been posted to the short side. Place a check-mark before each amount in both posting book and ledger, using a mark that is different in kind or color from any used before.

If no errors are found in the short side, check back the long side.

If an error is found at any time, subtract it from or add it to the amount of the first discrepancy, so that the figures of the amount sought are always in mind.

If the discrepancy is not found by checking, review the ledger to see if there are any amounts, within the audit period, which have not been checked.

This procedure should result in a balance.

83 D. Though a trial balance may be taken, there remains a question whether all items were posted into the right accounts. A trial balance or proof sheet will not determine this question, as the auditor while doing the checking is occupied with pages and amounts, and is likely to overlook titles. If the accounts are to be proved, it will not be necessary to check back, but to go directly to the abstract of the accounts. This is written on analysis sheets, or paper ruled with pairs of columns (debit and credit), as many as the page will hold, in which the amounts from the posting books are carried.

Transfer the account-titles from the ledger to the columns in the abstract of accounts, leaving as much space below each title as the entries under this title will require when written in closely. To aid in locating personal accounts, which may be numerous, place them in alphabetical order, since the comparison is to be by titles, not by pages.

The general accounts will be easily located without re-arrangement if they are in proper order; if not, re-arrange them. (See Prin. 21.)

Carry all amounts from the trial balance at the beginning of the audit period, and all amounts during the period from the posting books to the abstract.

The results should balance when the posting is finished, and each item in the abstract of accounts should agree with the ledger.

84. An Audit to Show True Record goes into the matter of the first entries to determine whether they are the records of actual transfers of value to the person or department charged. This is not entered into with a view to discovering fraudulent intentions, but to de-

termine whether there is any business laxity or failure to exact full value for any of the obligations or payments. The following are examples of this kind of items: (1) entries for invoices before receipt of the goods billed, or before the amounts of the invoice are verified, or before any allowances against the bill are noted; (2) the charge of an invoice to the wrong department; (3) cash payments for something that was not received; (4) donations of the firm's funds to charitable ends, by individuals in the firm, or the taking of firm goods for personal use by partners; akin to this, is the action of the bank teller who, on days when cash was "over," placed the surplus in a box, to be returned to the till, on days when cash was "short;" (5) laxity in collections, allowing claims to become outlawed or otherwise uncollectible. Serious irregularities along this line may be the entry of assets which do not exist, or which have not the value shown on the ledger. There might be entries of real property of great value, to which the firm has no recorded title, or against which there are liabilities not shown on the books. Obsolete patterns, models and machinery, may be carried on the books at a nominal value, after they are worthless. Any injury to property by fire or accident must also be charged off.

Ordinary depreciation in property should be represented in sufficient reserves.

The false record that probably has caused most havoc among business men is the inflated inventory. Every dollar of inflation in an inventory is that much deception as to profits. The inventory may contain items not really in stock, or may be priced too high, or may contain old and worthless stock at the purchase price, which amounts to the same thing. The auditor must ascertain, if possible, what the goods are really worth.

The ledger may show intangible assets, which are not only intangible, but do not exist. Good-will account is sometimes in this condition; Patent-right and Copyright accounts often are.

The liability accounts also demand inspection. Are

all accounts payable and notes payable entered at their full amount? Have notes receivable, when discontinued, been entered as contingent liabilities? Is the firm liable on accommodation paper?

Records which show either an inflation in assets or a false diminution in liabilities, require adjustment.

A firm's books may show a condition contrary to the foregoing, that is, assets may be entered too low, or liabilities too high, resulting in a showing of less worth or capital than the business really posseses. Such a condition, called a secret reserve, may work hardship on the shareholders of a corporation, who may be entitled to dividends which do not show on the books, or who may be induced to sell their stock while believing it to be worth less than it really is.

The capital stock account may need auditing. There are many ways in which this account may be misleading. It would be difficult to estimate the number of corporations that have been at fault in issuing shares of stock to individuals in exchange for promissory notes, or for considerations other than cash, the value of which is less than the par value of the stock.

The cash account should be examined for unintentional regularities. Is the balance in the cash book all current money? A cash balance running into four figures has been known to represent a few coins, a few bills and a large quantity of expense tickets, due bills, protested paper and other items carried in the hope of a future conversion into money.

Is the bank account correct? This can best be ascertained by a reconciliation of the bank statement with the depositor's record discussed in detail in Prin. 84 B.

84 B. Reconciliation of Bank Statement. A bank usually delivers a statement of the checking account to the depositor on the first of the month. This statement is accompanied with the depositor's paid and cancelled checks, which should agree with the debits in the statement. The deposits, as credited in the statement, should agree with the amounts entered in the depositor's bank

book or his cash account. The difference between total deposits and total checks, as appearing on the statement, is entered by the bank as a balance due the depositor.

If the balance on the statement agrees with the balance in the depositor's books, the statement is assumed to be correct without further attention, except that the checks should be compared with the depositor's entries in order to make sure that all canceled checks have been returned. This comparison is indicated by check-marks in the depositor's cash book.

For several reasons, the bank balance does not often agree with the depositor's balance on a given day; among these reasons are: (1) certain checks issued by the depositor may be in transit; (2) deposits charged to the bank on the depositor's books at the end of the month may not have been credited by the bank during the month covered by the statement; (3) the bank may have made charges for collections or other items which have not been credited in the depositor's books; (4) the bank may have credited collections made for the depositor, which the latter has not entered; (5) there may be mistakes in the bank's statement or in the depositor's books.

To reconcile, make additions to and deductions from the balance reported in the bank's statement, as follows:

(1). Compare your record of checks issued with the charged and cancelled checks returned; if any checks are found to be in transit, subtract their sum from the balance shown on the bank's statement.

(2). Compare your record of deposits with the deposits entered in the statement; if any deposits are missing from the statement, add their sum to the bank's balance.

(3). Compare the bank's statement to discover any petty charges made by the bank that have not been reported, or have not been credited. If any are found, add their sum to the bank's balance. Also make the proper adjustment entry in the cash book.

(4). Look for any credit given in the bank's statement for collections or other items that have not been

entered; if any are found, subtract their sum from the bank's balance as shown on the statement. Also make the adjustment entry in the cash book.

(5). If there are errors either in the bank's statement or in your books, correct the one that is wrong, and report to the bank, if the banker's account is in error.

Pin to the bank statement the sheet on which the foregoing computations have been made, in order to show the reconciliation of the two accounts, and file them for reference when the next following statement is to be reconciled.

85. An Audit to Show Fraud or Its Absence involves tests to show whether or not defalcation, embezzlement, or misrepresentation has occurred. These may take several forms; among them, are, (1) defalcation of cash or other agents of the concern. The direct question to be answered is. Has there been misappropriation of cash ranted financial risks?

85 B. Such an audit goes into the matter of the discharge of trust delegated to officers and employees, or other agents, of the concern. The direct question to be answered is, Has there been misappropriation of cash or property, or any showing made in the books that would cause either investors or creditors to take unwarranted financial risks?

Where deliberate fraud is practiced, the concealment may be more or less ingenious, depending upon the skill of the offender; yet in the great majority of cases when a fraudulent entry is discovered, that entry affords the key to the entire defalcation, for embezzlers rarely take the risk of confusing themselves by the use of a variety of methods.

In looking for fraud, the auditor should first determine how far the bookkeeping system in use affords a check, and how faithfully this check has been carried out; then he must devise and put into execution such further tests as may be needed to reduce the matter to a reasonable degree of certainty. Among these tests are the following:

85 C. Defalcation of Cash or Securities. The auditor's first step is to count the cash actually on hand. This means to make list of the money, checks, or whatever passes as cash, whether in the till or cash drawer, or in the safe or vault—all cash, and the bank balance, if this is included in the cash account. This should agree with the cash account balance taken at the time the cash is counted.

Many tricks may be practiced on the cash drawer by which the cashier is enabled to abstract money without making any permanent record. Such practice is foolish as well as dishonest, but both foolish and dishonest people continue to follow the steps of those already in jail. Among the devices of the tricky cashier are the following:

(1). The cashier may simply take an amount out of the drawer, and leave in its stead a cash ticket which is counted as so much money. This looks like a harmless practice because there are times when one must take cash for a purchase or a payment of some amount not yet determined, the intention being to return the unused cash, make a charge for the amount spent, and destroy the memorandum ticket. Such tickets should be examined closely, for a ticket of that kind should not be allowed to remain day after day.

(2). A cashier may take a perpetual loan out of the cash drawer in this wise: A customer may pay an amount, say $100, for which the cashier makes a credit ticket dated one day later. He makes no entry of the ticket on the day received, but "borrows" the cash for his own use. The following day he credits the ticket regularly, except one day late, and holds out another payment, or payments totaling the $100, which is held up from entry until the next day, and so on, indefinitely. As the larger collections are usually checks, the dishonest cashier must pay into, or take out of, the drawer the difference between the original $100, and the nearest approach he can make to the required amount, or else increase or diminish his "loan." An auditor

should compare the dates of all checks and drafts in the drawer with the dates of entry in the books, and the date of the receipt if possible. Where remittances are received through the mail, the date of receipt, even to the hour, if necessary, should be stamped on the letters.

(3). There may be dummy checks in the drawer, that is, imitations of checks left there to be counted as cash.

Having satisfactorily shown that the cash on hand agrees with the cash balance, the next step is to follow the receipts and payments of cash during the audit period.

(4). A cash balance may have been forced, that is, a smaller amount than the real balance may have been entered in the books, and footings made to balance, when they really would not be equal if properly added. Such a forced balance necessitates a like change in some amount posted to the ledger; in order words, an amount from the cash book must be omitted in the ledger, or else posted at a wrong amount to equalize the discrepancy in cash. Thus, cash might be forced, $9.90 and an item of $10 posted as 10 cents to satisfy the trial balance.

The way to detect a forced cash book, is to review the footings. Although the cash book may have been balanced many times during the audit period, the debits and credits of the entire period can be footed separately on two lists. Whatever the number of columns in a cash book, there should be one column for all net cash receipts, and one for all net cash payments. In some cash books, this may not be the case. Then the items must be picked out of various columns.

(5). After the cash book is found to be mechanically correct, the cash payments demand attention. Cash may have been taken out and wrongfully charged to some nominal account. The accounts of Expense, Purchases and unclassified losses should be examined to discover unreasonable or unnatural charges. Also, the vouchers should be scrutinized, and

all payments should be reviewed with care. Payments to persons, if in the correct amounts, are assumed to be correct, otherwise there would be complaint from the persons paid.

(6). The cash receipts demand attention. Were the amounts entered on the debit or receiving side of the cash book the amounts actually received? Were the discounts deducted from customers' invoices actually allowed? Allowances may be recorded as deducted from bills, although neither valid nor allowed. For example, a remittance of $100 on account might be entered as only $80, and an entry made crediting the customer for $20 allowed for damaged goods or other causes. For this and similar reasons, rebates and allowances need attention.

If in doubt as to the correctness of the entries of checks and drafts received, secure the deposit tickets for the period, from the bank, and compare the items thereon with the entries in the cash book. The bank balance itself may be carried on the books at a greater amount than the real balance. Reconcile the bank statement. (Prin. 84 B.)

(7). Securities (stocks, bonds and notes) must be checked to see that they are held by the concern, are genuine, and that they agreed with the records. The matter of dates and signatures of notes is important. A spurious note might represent the loss of a great deal of money.

The foregoing suggestions afford a beginning from which the auditor may extend research as occasion demands.

85 D. An Audit to Show Misappropriation of Property refers to the kind of property, how it is held, and the system of records already pertaining to it.

Commodities in store room, warehouse or with agents, or wherever kept, are easily abstracted unless properly guarded.

If charges are made for purchases when it is suspected that the goods were not received, an auditor should first eliminate the invoices from reputable

houses whose statements show agreeing entries. Having found such to be correct, there may remain miscellaneous purchases of a more or less irregular nature. These may be traced in various ways. If there is no invoice from the seller, there is likely to be at least a memorandum of what was bought. Anything bought would ordinarily be either sold, used, destroyed or still in stock. If none of the last three dispositions can be shown to account for purchased goods, a record of sale should exist. Certain items that seem to require especial attention may be checked through the sales records to show disposition. A sufficient number of such items, thus verified, should establish a fair presumption that all are correct.

Managers of branch stores and other agents having goods in stock belonging to the principal, should render periodic inventories of stock on hand. The correctness of the inventories must be verified by checking the inventory with the goods.

A rough way of determining whether there is any great loss in stock, is to compare, from previous periods, the average per cent profit on sales. By deducting this percentage from the total sales of an audit period, a remainder would be left which should approximate the cost of the merchandise sold for the period. The auditor must use his judgment as to applying this plan, as conditions differ.

Goods may be removed from stock and charged to fictitious persons. An examination of the accounts receivable would probably disclose any such. This examination should extend especially to overdue accounts, or accounts containing irregular entries.

A shortage in the inventory may be fraudulently covered by raising the prices in a subsequent inventory over what they were in a previous inventory. A comparison of prices should be made.

85 E. A Misrepresentation of the Business may be made to accomplish fraud upon investors or creditors. An insolvent bank may be represented as solvent, in order to attract deposits that it will be unable to repay.

A merchant may represent himself as being worth more than he is, in order to secure larger credit in goods or money than he is entitled to. A business manager may overtstate the profits of a given period, in order to secure the approval of stockholders and a continuance of management. Directors of a company may declare and pay dividends on stock, by borrowing money for this purpose, or by taking the so-called dividends out of the capital, thus making the stock appear more valuable than it is and thereby attracting other investors. On the other hand, the profits of a business may be concealed, although great enough to entitle stockholders to dividends which are not declared. Under such impressions, dissatisfied stockholders might be induced to sell their stock for less than it is worth.

Many kinds of misrepresentation have been used to make the business appear either better or worse than it really is. The auditor should proceed under such conditions as outlined in Prin. 84.

86. An Audit to Show Suitable Books requires a knowledge of the business under consideration, so far as its needs of record are concerned, and a knowledge of the most suitable books and records for the transactions and operations. The auditor should begin with an outline of books, rulings, records, etc., theoretically suited to the conditions.

When revising an old system, he should compare the books under examination, step by step, with the system he has in mind, and should look for, and note, the specific deficiencies of the former, and make a note of the economies or advantages possible.

Recommended changes should be definite, and should compute time saved by the proposed method, on the basis of a year; the specific economies to be effected should be reduced to dollars and cents. Safeguards suggested should be suited to the conditions under which the employees are working.

Proposed changes should be with a view to retaining all of the old features that can be made to work in with

the new plan. To change a bookkeeper's long established habits, is to take away from him facility of action which it has taken time to acquire. For example, a bookkeeper who has posted from right to left for many years, would probably make many mistakes and go through much hardship before learning to post from left to right with anything like equal ease. To change even the position of a light might disturb a habit, and give rise to numerous errors. The auditor must consider the working force as well as the system.

Again, it is practically useless to recommend a system, that will show results so finely analyzed that the manager himself cannot understand it, or will not use it. This great mistake has been made by many well-intentioned systematizers, who gauged the manager's power to grasp and utilize information derived from books, by their own facility in this direction. The constructive auditor should recommend office changes with a careful regard to the ability of those who are to utilize the system, as well as to the ideal advantages of the system itself. He should not feel that his labor is wasted merely because he cannot secure the installment of as fine a bookkeeping system as he would like. He has done his part when he has provided the best that his employer can use.

87. **An Audit to Show Worth and Earning Power** involves the verification of existing records, and the preparation of such additional data as is needed to answer the questions: What is the physical worth of the property? What does it earn per year?

The exhibit from the books may be complete, correct, and satisfactory, or it may be only partial, but good so far as it goes. Where the system falls short, constructive auditing begins.

87 B. The worth of the business is exhibited in the real accounts. These consist of, (1) cash and cash collectible; (2) floating property; (3) fixed property; (4) speculative property; (5) intangible property; (6) liability to creditors.

Cash, accounts, notes, and other claims, should be verified as to amounts and collectibility; floating property should be verified from inventories, as should also unrecorded amounts of money due (for example, accrued interest, rent or insurance prepaid). Fixed property should appear itemized in the ledger at cost; and depreciation should be represented in reserve accounts. Speculative property should be viewed particularly as to its present worth, and a sufficient amount should be written off to make good any fall in value. Intangible property should be examined with a view to the expiration of its value, and the required amount to be written off.

The liabilities should be carefully gone over to see that all are included. Often a search for contingent liabilities will disclose matters that should be recorded. The owners' credits consist of reserves, surplus, undivided profits, and capital. The reserves must be looked into to see what portion, if any, should be allotted to depreciation, bad debts or other shrinkage in assets.

Having reduced all of the above to their correct value as assets and liabilities, the net worth of the business may be found from their assemblage in a statement.

87 C. Having determined the net worth of the business, the profits for the year are found by comparison of the present net worth with the net worth at the beginning of the year. The profits may be found analyzed in more or less detail in the nominal accounts, if such have been kept.

The net profit of the current year should undergo comparison with the net profits of preceding years, to determine, (1) the average profit, year after year; (2) whether the annual profits have been variable, some years much more than others, and the reasons for any such variations should be clearly established.

Furthermore, it is essential that an apparent net profit be analyzed, to see whether it is profit resulting from the incomes, or from capital and fluctuation. Thus, the fortunate sale of real estate owned by a factory, might swell the gains of a certain year to double

their ordinary amount, while the business profits might be the same as before. A stock of goods purchased before a war or other great disturber of values, might be sold for double or treble its former value. Profits under such circumstances as these, are not a criterion as to the earning power of the business.

88. **Legal Aspects:**

The exchanges between persons as recorded in bookkeeping, are assumed to be in accordance with contracts, but, in ordinary selling, the details of these contracts are not often referred to, it being understood that they are determined by custom. This may sometimes give rise to misapprehensions that have a decided bearing on the condition of the business, or of the individual investors, and an auditor should not overlook them. Persons frequently enter into business relations without clearly understanding the risks involved; and may not properly safeguard their own interests. Also, they may have overlooked rights which would materially advance their interests if enforced. A number of matters relating to the legal aspects of business are referred to under this number.

88 B. **Sale of Goods.** To sell, is to transfer ownership in the thing sold for a money consideration. The seller of commodities is chiefly interested in knowing whether a supposed sale of merchandise is really a sale when the transfer takes place, and who is to bear the legal risks of losses in connection with the sale.

A sale is the execution of a contract. This consists of an offer on the part of the seller and its acceptance on the part of the buyer, or the reverse, which is sufficiently definite to be enforced by legal action.

Having transferred goods, the important question arises as to whether a sale has been so made that the buyer cannot legally avoid payment.

Sales of goods on credit are made either on a verbal or a written order, which is delivered to the seller or to his authorized agent.

(1). If on verbal order without restrictions, the acceptance of the commodity by the buyer is evidence of his agreement to pay for it. If no price is specified, the regular published price, or the regular market price of the goods on the day named is collectible. To avoid paying for goods, the buyer must refuse to accept them when they are offered, or must show that they were not as represented.

(2). When goods are sold on unqualified written order by mail, wire, or messenger, the transfer of the property from the seller to buyer ordinarily takes place when the seller delivers the goods to the railroad or other carrier designated or implied in the order. In this case any loss or injury to the property while in transit, or any risk incurred in connection with it is borne by the buyer, who looks to the carrier for damages.

(3). Either the offer to sell or the order for the goods may specify certain conditions of time or place that would place the risk upon the seller. Thus when sale is made "on approval," the goods may be received by the buyer, examined and refused. In that case the seller is under obligation to see to their return. But if the buyer holds the goods without refusal, beyond the time set, or beyond a reasonable time if no time is set, his acceptance is implied, and the account would probably be collectible.

(4). Manufacturers and others desiring to promote the sale of goods, sometimes ship them out "on sale," that is, to be paid for when the buyer sells them. In such case, the buyer is accountable in cash for the part that he has sold. When goods are regularly kept on sale, it is customary for the selling agent to render statements and remit proceeds of sales monthly, quarterly, or annually. The conditions should be specified in a written contract.

(5). The sale of goods C. O. D., gives rise to a variety of legal opinions as to whether the title to the goods passes at the time of sending the goods out of the sales room, or at the time they are received by the

buyer. Since the terms signify that the buyer is not entitled to possession until he pays for them, the practical result is that regardless of any legal rights, the seller generally pays the expense of their transportation both out and in, if they are refused.

(6). In some instances, the title passes without the property being handled at all, as when grain is transferred by the delivery of warehouse receipts, or where title to property is transferred by delivery of a bill of sale.

88 C. Collection of Accounts and Notes. After a sale on account is made, provision must be made for collection. Usually, the first step is to send the customer a statement of the amount owed on the first of the month following the sale. This statement is not a reminder to pay, if the account is not due; it merely affords the customer an opportunity to compare accounts and note discrepancies. Where the account is due, the statement is regarded as a notice that payment is expected.

(1). Wholesalers usually allow customers a certain term of credit, but offer a discount from the bill for immediate or early cash payment. As a cash discount is usually considerably more than the current rate of interest on the amount for the given time, the seller has a right to assume that a customer who will not take a cash discount is either unable to borrow money of his banker to meet bills, or is negligent of the profit he could make by discounting. In either case, the customer's credit is affected and his account is to be more closely watched.

(2). When the unpaid account becomes due, a letter of reminder is usually sent. This bringing no response, a notice of sight draft may follow, and a sight draft on the customer for the amount may be sent to a bank for collection. If still unpaid, correspondence should disclose the reason for non-payment. It may be that more time is desired. This is frequently granted by taking the customer's note to settle the account. This resolves the debt into a form more easily handled,

besides making it draw a specified rate of interest, and extending the period beyond which it would be outlawed.

Doubt as to the customer's ultimate ability to pay might justify the taking of a mortgage on his real or personal property to secure the debt.

In extreme cases, a mortgage received would be followed by foreclosure and the sale of the mortgaged property with a view to applying the proceeds on the debt.

(3). If other means fail, the debtor may be sued for the account or note, and if the claim be proved correct, a judgment will be entered against the debtor. This would be followed by a forced sale through a court officer of any of the debtor's property which is not exempt from execution. The legal expenses of securing judgment are paid by the creditor, and, with the exception of lawyers' fees, are added to the claim against the debtor.

(4). An account, note, or judgment may remain unpaid for so long a time that the debtor can refuse payment under the statute of limitations. There is much variation in the different states as to the time when this statute applies. It may be from two to eight years, on accounts; from three to fifteen years on notes; and from five to twenty years on judgments. (See Index Commentary.) When this time has expired, the debtor may plead the statute of limitations and thus avoid payment.

88 D. The Purchase of Land is a more formal matter than the purchase of goods, and must be evidenced by a written contract, called a deed, which is given by the seller to the buyer. Land is perpetual, and title to it is a matter that, in the course of time, by passing through many hands, would be hopelessly confused if a public record of all transfers, liens, or encumbrances were not required. An officer variously called a county recorder, recorder of deeds, register of deeds, or recording clerk, whose duty it is to make permanent public record of the documents affecting the title of land, is regularly elected or appointed in each county. It is assumed that any

prospective purchaser of land will satisfy himself as to the title of the land, by referring to the public records, where conflicting claims upon the property, if there are any such, should be recorded. Purchasers of land do not often examine the records personally, but secure an abstract of title, which is a carefully prepared explanation or digest of all documents that affect the title of the given property. This abstract is based on the county records. Any doubtful question about title to property should be submitted to a real estate lawyer.

The purchaser, on receiving a deed to the property, should send the deed to the county recording office for record at once. To do so, is highly important since this record alone conveys notice to the public of the purchaser's title. He will thus have priority of record as protection against other claimants who might, through errors or double dealing on the part of the vendor, have mortgages, or other liens of which the purchaser had no notice, and which might be recorded by these claimants.

Some of the liens which should be looked for are the following: mortgages; rights of heirs of a deceased former owner; rights of spouse or others through imperfect previous conveyance or disability of the conveyor; unpaid taxes; mechanics' liens for unpaid labor or material in the property; judgments against a former owner; a lease of the property to a tenant.

On the other hand, persons interested in any of the above mentioned or other liens against property, should have the same recorded, in accordance with the state laws, in order to secure their priority of record, which is a notice to subsequent parties of their interest in the property.

After being recorded, the deed should be preserved by the owner of the land.

88 E. Commercial Papers consist of drafts and checks, acceptances, promissory notes, and bonds. They are demands upon a person (the drawee) or promises

made by a person (the maker) to pay to the order of another person, a sum of money at a given time.

(1). Negotiability is the distinguishing mark of commercial paper. By this is meant that the given paper can be passed in the course of business from one holder to another, and that any bona fide holder or authorized payee, has the legal right to collect the paper in his own name, regardless of equities existing between the original parties to the instrument. Negotiable paper passes current as money in the great majority of business settlements.

(2). The draft is a written form, used by a first person (the drawer), in directing a second person (the drawee), to pay a given sum of money to a third person (the payee), or to some one (the endorsee), whom the payee designates. Foreign drafts are called bills of exchange.

Suppose that two men named, respectively, Mr. Give and Mr. Take, live in your home city; and that Mr. Owe, who is indebted to Mr. Give, lives in New York City. Also, Mr. Give owes Mr. Take, and the latter, who is about to go to New York City, accepts from Mr. Give a letter directing Mr. Owe to pay Mr. Take a sum of money. On arrival, Mr. Take hands the letter to Mr. Owe and receives the money. Such a letter would be called an order. But if the letter were changed so as unconditionally to direct Mr. Owe to pay the money "to the order of" Mr. Take, then Mr. Take would not need to present it personally to Mr. Owe, but, by endorsement, could pass the paper to any other person, whom we call Mr. Collect. Mr. Collect could take the paper to Mr. Owe and secure the money as well as Mr. Take could. Mr. Collect, if he chose, could endorse the paper to another person, and this person to still another, until finally the last endorsee could present it to Mr. Owe for payment. Papers in form to be handled in this way are called drafts.

(3) All banks have money on deposit in other banks, located at a distance in trade centers, upon whom they draw bank drafts for sale to customers who wish to

transmit money safely through the mail. A properly endorsed draft is collectible by only one person, the payee, or by an endorsee. A lost or stolen bank draft is worthless to the finder or thief, unless he successfully forges the payee's endorsement.

(4) Merchants draw drafts, which they call bills of exchange, on distant merchants in settlement of the balances due between them. Such drafts when payable a certain time after presentation, are called time paper.

The drawee of a time bill of exchange, by his acceptance promises to pay it at the expiration of the specified time. An acceptance usually consists in the drawee's writing across the face the word "Accepted," "O. K.," or some similar form of assent, followed by his signature. An accepted bill of exchange, or draft payable, is equivalent to a note payable, and is entered, in the books, in the account of Notes Payable.

(5) Slow customers are reminded of their indebtedness by collection drafts sent through banks for presentation to the drawees. Collection drafts are little more than duns, and are of no value until paid.

(6) A bank check is essentially a draft drawn by a depositor on the bank that holds his deposit. Checks as ordinarily made are negotiable. Payment by check is the safest way to disburse money, as the payer thus has a record of each payment on his check stub. Also, the endorsement on the back of the check operates as a receipt from the payee. Banks discourage the circulation of checks beyond the locality where issued.

Checks may be presented to the drawee bank for certification, which is a writing across the face obligating the bank to pay the check when presented. The word "certified," with the signature of a bank officer is sufficient. A certified check is an obligation of the bank in all legal essentials like an accepted bill of exchange.

(7). Bonds issued by corporations, municipalities, and individuals, are usually drawn in negotiable form, like notes, and can be transferred by endorsement.

All commercial paper received as cash, should be collected or deposited, within a day after receipt, as there are contingencies that might stop payment.

88 F. **Agents** are persons authorized to act and who do act for others. General agents represent the principals in all business actions of the agency; special agents have authority extending to special acts only. An agent may receive "power of attorney" from his principal, thus authorizing him to attach his principal's name and seal to contracts. Agents intrusted by a principal with merchandise, ordinarily have a lien against the goods in their hands, to secure payment for services.

Salesmen, collectors, commission merchants, auctioneers, attorneys-at-law, officers of corporations, members of firms, and many other agents, have their duties and obligations pretty clearly defined by law and custom. However, it is possible for almost any agent to exceed his authority, and to involve his principal in obligations not intended by either of them. In such cases the principal might, to his damage, be bound to third parties and possibly be unable to recover from the agent who had exceeded his authority.

When an agent is appointed for a special purpose, the contract should be in writing, and should clearly explain the agent's duties.

88 G. **Partnership** is a relation between two or more persons who unite capital, labor and management for joint profit.

The relations of the partners should be written in an agreement, clearly stating, (1) the names of the partners and of the firm; (2) the nature of the business; (3) the period of the partnership; (4) the investments of the partners; (5) the salary allowed partners for services; (6) the interest allowed partners for capital invested; (7) the proportion of net profit or loss assigned to each partner; (8) a limitation preventing any partner from involving the firm in unnecessary obligations; (9) a provision for the continuation or the dissolution of the partnership.

Ordinarily each partner, as agent of the firm, has power to bind the others by the firm contracts. Each is personally liable for the entire indebtedness. A close relation of trust exists between partners, so that it is unwise for anyone to join business interests with persons in whom he has not entire confidence, or who are not financially responsible. Every partnership should be qualified in a definite written agreement.

A partnership may be dissolved at any time by consent of the partners, or by expiration of the time named in the agreement. One partner may withdraw without consent of others, before the time set in the contract, and this will effect a dissolution of the partnership; but the partner who does this, becomes liable for damage to the other partners for doing so. The death or bankruptcy of a partner dissolves the firm. A partner cannot, by withdrawal, escape liability for existing debts of the firm to third parties, even though these may be assumed by the remaining members of the firm. The estate of a deceased partner is also liable for the firm debts at the time of his death.

Owing to laxity in account keeping, one partner frequently has unfair advantages over another which are difficult to adjust. In a retail store, it not infrequently occurs that one partner takes out for his own use, goods greatly in excess of the other's drawings. He may also unwisely create debts which the firm must pay, and, in other improper ways, involve his partner's capital. An honest, capable person is frequently at the mercy of a dishonest partner, and cannot escape loss so long as the partnership continues. Some of the heaviest business losses are traceable to an unwise choice of partners.

88 H. **A Corporation** enables several persons to combine their capital and services under one management, while avoiding some of the disadvantages of the partnership relation.

The ordinary private corporation is formed by virtue of general acts of legislation, which specify the steps to be taken by persons intending to incorporate, and which authorize the issuance, to the incorporators, of a certifi-

cate, or license, which evidences their compliance with the law. Their compliance with the legal provisions enables the incorporators to act through the corporation in the following ways: (1) the capital stock (divided into shares) may be owned by stockholders, who can dispose of their interests in the company to other persons, and withdraw entirely from it, without affecting the continuance of the corporate organization; (2) the corporation may appoint, or remove officers or agents who conduct its business and make contracts; (3) the corporation may use a corporate seal and may acquire and dispose of real property in its own name; (4) the corporation may incur debts for which the stockholders are not individually liable beyond the amount of their stock in the company, or such additional amounts as may be specified by the laws relating to specified kinds of corporations; (5) a corporation may perform all the ordinary business transactions that an individual can, provided they are within the purposes for which the corporation was formed.

Specific information about the powers, rights, and obligations, must be looked for in the laws of the state where incorporated.

When the authorized number of persons desire to incorporate, they draw up articles of incorporation or a certificate of incorporation. A blank incorporation form, to be filled out by the incorporators, can usually be secured from the Secretary of State in the state in which the corporation is formed. These articles give the name of the corporation, purposes, amount of capital stock, number of shares, principal place of business, duration of corporation, number, names and addresses of the incorporating stockholders, the number of shares held by each, and other provisions.

A subscription list is signed by persons who organize the corporation, each agreeing to take the number of shares specified. This list is a contract upon which payment may be legally enforced, should any subscriber refuse to pay his pro rata. The payments made by the subscribers constitute the capital of the corporation.

When the stock is paid for, the officers issue stock

certificates to the subscribers, who then become stockholders.

The incorporating stockholders elect from their number certain members to be directors. The directors in turn elect the officers. The officers usually include president, vice-president, secretary and treasurer. The treasurer usually has in charge the bookkeeping records of the business.

88 I. **Bankruptcy** is the legal condition of an insolvent person whose property has been ordered by court decree to be placed in the hands of a receiver for the winding up of his affairs. The court order may be made on petition of creditors who are aware of the firm's insolvency, or believe that deception is being practiced upon them, or have reason to think other creditors have undue preference; and who bring the action in bankruptcy as a means of securing their share of the assets rather than risk further delay. It may be made on petition of the owner himself, who goes into bankruptcy in the desire to turn over his property to creditors, and, in so doing, to escape further liability through the provisions of the law.

One federal bankruptcy law provides relief in this matter, and specifies that any person, except municipal, railroad, insurance, or banking corporations, may secure the benefits of this act by becoming a voluntary bankrupt.

The bankrupt is entitled to the benefit of state exemption laws, which permit him to retain certain property for his personal use—the amounts he may retain varying in different states.

88 J. **Executors and Administrators** are officers appointed by a court to close up the estates of deceased persons. The person appointed is called an executor when he is named by the deceased in his will, and he receives his court appointment because so named. When no executor is named by the deceased, the officer appointed is called an administrator. Among the duties of an executor or administrator are to inventory and secure ap-

praisal of the personal assets belonging to the estate, to pay the debts of the estate out of the assets, to distribute the estate, and make an accounting to the court. The executor or administrator usually performs these duties under legal advice. The administrator should open a separate set of books for the estate, and a bank account of the moneys should be kept as a separate fund. The compensation of executors and administrators for their services is usually fixed by a statute in the several states, and is a preferred expense.

88 K. Income Tax. Federal income taxes are levied under provisions of two laws enacted by Congress in 1916 and 1917. Under these laws, two separate taxations of two per cent each, called the normal tax, are applicable to net annual incomes exceeding the specific exemptions given below.

SPECIFIC EXEMPTIONS

	1916 Law	1917 Law
Unmarried persons	$3000.00	$1000.00
Married persons or heads of families	4000.00	2000.00
Additional for each dependent child	200.00	200.00

Over and above the normal tax, an additional tax, or surtax, is levied on incomes of individuals exceeding the amounts on the following table wherein the rates of surtax are given:

Amounts subject to surtax			1916 Law	1917 Law	Total
From	$5000	to $7500	None	1%	1%
"	7500	" 10000	"	2%	2%
"	10000	" 12500	"	3%	3%
"	12500	" 15000	"	4%	4%
"	15000	" 20000	"	5%	5%
"	20000	" 40000	1%	7%	8%
"	40000	" 60000	2%	10%	12%
"	60000	" 80000	3%	14%	17%
"	80000	" 100000	4%	18%	22%
"	100000	" 150000	5%	22%	27%
"	150000	" 200000	6%	25%	31%
"	200000	" 250000	7%	30%	37%
"	250000	" 300000	8%	34%	42%
"	300000	" 500000	9%	37%	46%
"	500000	" 750000	10%	40%	50%
"	750000	" 1000000	10%	45%	55%
"	1000000	" 1500000	11%	50%	61%
"	1500000	" 2000000	12%	50%	62%
"	2000000	up	13%	50%	63%

Partnerships, as such, are not recognized, but the income tax is levied on the partners' individual shares of the profits.

Taxable Income is net profit derived from investments and business operations, or it may be derived from personal or professional service, business, trade, commerce, dealings or lawful transactions, interest, rents, dividends, and other receipts not brought about by the conversion of other kinds of capital into money. The gross incomes, revenues, or earnings of an individual are subject, besides specific exemption, to the following named deductions before arriving at the amount returnable for normal income tax:

1. Necessary business expenses (living expenses not included).
2. Interest accrued and paid within the year on indebtedness.
3. Taxes, (except those assessed for local benefits and income tax).
4. Losses in business (by fire, storm or shipwreck not compensated by insurance).
5. Bad debts charged off.
6. Depreciation charged off in reasonable amount.
7. Interest on obligations of the United States or any political subdivisions thereof.
8. Dividends from companies that have already been taxed for income.
9. Other income that has been taxed at the source.

(Nos. 8 and 9 would be included for additional tax).

An individual is subject to normal income tax on his profits, after deduction of the specific exemption, and the above nine deductions, or to additional tax on the same in excess of $5000, except that Nos. 8 and 9 are not deducted in finding the additional tax.

Corporations, joint-stock companies, associations, and insurance companies are subject to annual normal income tax of two per cent on all net income under the law of 1916. Under the law of 1917, a tax of four per cent is levied. This makes a total of six per cent annual income tax on corporations.

Returns. Every citizen or resident of the United States whose net income for the year 1917 or thereafter equals or exceeds $2000 if married, or $1000 if not married, is obliged by law to make returns to the collector of internal revenue for his district, on or before March 1, annually.

The blank form for this return is furnished by the collector of internal revenue to whom the citizen must apply.

Payment of the income tax must be made by cash, check or money order on or before June 15 following, to the collector to whom the return is sent.

Accounts. Books of account should be kept in order to make accurate returns, and the government is encouraging bookkeeping among professional men, farmers and individuals. In the government return form No. 1040-A, suitable for incomes of $3000 or under, separate accounts are required of:

Income from salaries, wages, commissions, bonuses and pensions.

Income from business, farm or profession. From such income deduction may be made for business expenses and losses, classified under labor; materials and supplies; rent, merchandise or live stock bought for sale; wear, tear and repairs; losses by fire, storm, other casualties, or theft; other business expenses.

Income from sale of land, buildings and other property, real or personal.

Income from rents and royalties.

Dividends received, including stock dividends.

Other income.

General deductions allowed from total income include interest, taxes and contributions for religious, charitable, scientific, or educational purposes. All of these deductions are subject to exclusions fully explained in the government return forms before mentioned.

89. Single Entry Bookkeeping is any system of bookkeeping which lacks the completeness of double entry in the matter of equal debits and credits. It is

assumed that a single entry bookkeeper makes some records for all important transactions, and that these records are so kept as to show, in a general way, all cash receipts and payments, and the amount of the cash balance. The records must necessarily extend, also, to accounts showing collections to be made from customers, and accounts showing amounts owed to creditors. To keep accounts of cash on hand, cash to be collected, and cash to be paid, is all that is usually attempted in single entry bookkeeping.

It is easier to keep such single entry books than to keep books by double entry, because no posting is required for any cash receipts or payments, except those that pertain to customers' or creditors' accounts. Accounts of property and nominal accounts are ignored. There is no time spent in locating errors outside of the cash balance, because there is nothing in the system to disclose the presence of errors; no time is spent over a trial balance, because, as there is no attempt at equality of debits and credits, there can be no trial balance.

There are single entry sets of books, however, in which accounts of property, sales, and various expenses are kept. Some large mercantile concerns keep by single entry, approximately all the accounts found in some double entry sets of books. Various auditing proofs may give the same sense of accuracy in single entry books that a trial balance does in double entry. But when single entry books are so highly developed as to furnish proof of accuracy, or keep accounts of property and classified expenses, they entail more labor, with less complete adjustment of accounts, than would a double entry system developed to the same extent.

It is plain, however, that the original entries in single entry books can be posted to whatever accounts the bookkeeper desires, until a complete double entry classification is reached.

89 B. The books ordinarily referred to as comprising a single entry system, consist of, (1) a day book, for charge or credit entries; (2) a cash book for cash re-

ceipts and payments; (3) a ledger containing personal accounts. Such entries as are not posted to the personal accounts, remain in the original books as memoranda. Any auxiliary book may be added.

89 C. A common form of single entry used by shopkeepers, consists of a summary book, into which are transferred, daily, the total receipts and payments of cash, the total charge sales, and the payments thereon, and sundry payments, all taken from the record made in a cash register. These are recorded in the cash register automatically, in columns showing receipts from cash sales separate from receipts from customers on account; and payments from cash purchases, separate from payments on account. A fifth column shows the amount of sales on account. A separate bill and charge book is kept for each credit customer. This is a book containing a number of duplicate sale slips, for the items sold. An original slip is passed to the customer at each sale, and the duplicate retained in the book. The total of the customer's account is forwarded on the duplicates from page to page.

The bills owed by the shopkeeper are kept in a drawer, and taken out as paid.

Such a system answers the purpose of keeping a watch on cash and customers' accounts. The errors in the customers' accounts, however, which are likely to be numerous, are undiscovered unless reported by the customer.

89 D. When a single entry set of books is used, the net profit or loss for an accounting period is usually found by comparison of the net worth at the beginning with that at the close of the period, as exhibited in financial statements.

It must be remembered, however, that there are ordinarily no accounts from which the financial statement is to be derived, except the cash and personal accounts; all other items are to be entered in the statement from inventory, or from such papers and documents as may

be found. Such statements as Nos. 1 and 2 (Book of Forms) may be used.

89 E. Single entry bookkeeping always has been, and probably always will be, used by small concerns. It is defective in the kind of account analysis that enables a proprietor to know the operation and results of the business in detail, and judge the future by the record of the past. It is useful to those who require only partial records of some phases of their business, and wish to keep these records without any well defined proofs of accuracy.

89 F. To Change Single Entry to Double Entry, is a simple process. After making a statement of assets and liabilities, journalize it. (Form No. 13 A affords a good model.) If it is desired to retain the old ledger, check such accounts in the journal entry as already appear in the ledger, open new ledger accounts for the remainder, and post them. After the opening entry is posted, a trial balance should be taken.

The books of original entry may be modified to suit the business.

90. The Auditor's Report. Large business houses regularly employ auditors to work continuously in verifying the accounts of the different departments of branch houses, of agencies, and of the officials. The reports of such auditors are made on suitable printed blanks, and are made with a view to affording a collateral check on the books. The form of the reports is the outcome of the skill and insight of the one who devised it, and its value depends on its applicability to the business in which it is used.

Auditors are also regularly retained by business houses to review their books annually, or oftener at regular intervals. When the books are regularly audited, the auditor's first report covers the entire matters under consideration much more exhaustively and minutely than subsequent reports. The latter are, in a measure, based upon the first.

The report of a complete audit includes the financial and operative statements, divided with such minuteness as the case demands. The items in these statements are further explained by schedules and analysis sheets, attached to the statements. The report also includes the auditor's letter, which reviews the main points of inquiry, and specifies particularly any entries in the books not supported by vouchers, any irregularities in the books, any defects in title to the property, or negligence in the care of property or claims, and any specific recommendations tending to improve the methods of the business or the bookkeeping system.

PART THREE—DEFINITIONS

INDEX-COMMENTARY (Revised 1918)

1. A vocabulary of business words and terms. The present edition is greatly enriched through the courtesy of Mr. A. P. Richardson, Secretary of The American Association of Public Accountants, by whose co-operation we are enabled to include findings of the various annual committees on terminology of that Association. Definitions taken from these sources are indicated by the mark (†) before the definitions.

2. An index to topics in the text.

3. An index to models of books and blanks in the Form Book.

4. Standard abbreviations and signs commonly used.

5. The rules for computing Interest, Discount, Fractional Remainders, etc., as used in the laboratory units of the American Bookkeeping Series.

Abatement. An amount deducted for overcharge, damage, or discount, from a sum payable.

Abstract of Accounts. Prin. 83 D.

Abstract of Postings. †A list of ledger postings such as one drawn off for the purpose of proving the postings in the ledger with the books of original entry or for special information.

Abstract of Title. Prin. 88 D.

Acceptance. (1) The act of promising payment of a draft by the payee, usually effected by his writing the word "Accepted," followed by his signature, across the face of the draft. (2) The name given to an accepted paper. Prin. 65; Form 15 T.

Accommodation Paper. †Instruments which the maker, drawer, acceptor, or indorser signs merely as an accommodation to another, reaping no financial benefit for so doing, unless paid a commission for the act, as is sometimes the case. See Prin. 34 B.

Account. (Acct. or a/c). †As used in bookkeeping means (1) A single entry or group of entries either debits or credits or both together under a specific heading to indicate an accounting condition. (2) The balance or result of a group of such entries.

Accounts. Prin. 21-21 C.

Accountant. †One who by virtue of experience and training in accounting is qualified to review the work of accountants and bookkeepers.

Accountancy. †Accountancy is a profession, the members of which, by virtue of their general education and professional training, offer to the community their services in all matters having to do with the recording, verification and presentation of facts involving the acquisition, production, conservation and transfer of values.

Account Current. †A running record of current financial transactions between two parties who may, through the growth of their account, become debtor or creditor alternately.

Accounting. †Accounting is the science which treats of the systematic record, compilation, and presentation in a comprehen-

sive manner for administrative purposes of the financial operations of a business organization. See Prin. I.

Accounting Cost System. †A system whereby, through an adequate and comprehensive classification of accounts in the general ledger and the application thereto of the units of goods sold, an average unit cost is obtained.

Accounting Period. The time between opening and closing a set of books.

Account Purchase. A detailed record of the cost of purchases made by a purchasing agent.

Account Sales. An itemized statement issued by a commission firm to a consignor, showing the amounts realized from sales, the expenses and the proceeds. Form 15 Q.

Account Sales Abstract Book. †Book used for the purpose of distributing debits and credits of accounts of sale so that personal accounts may receive their postings daily and the impersonal accounts at fixed periods, usually at the end of month.

Account Sales Register. Form 25 C.

Accounts Payable. †All accounts payable to creditors. Prin. 32.

Accounts Receivable. † (1) Accounts due from debtors. (2) The aggregate of outstanding accounts receivable open on the books at any time. Whilst this account should be confined strictly to what its name implies, it often covers such things as advances to employees on account of salary, expenses in travelers' hands unaccounted for, and other debit accounts not strictly accounts receivable. Prin. 23 D; Form 18 B.

Accretion. †That which has grown or accumulated, a term used mainly as applying to the growth or accumulation of income under certain conditions.

Accrued. Added by gradual increase, as the interest on a note.

Accrued Dividend. †This has the same relation to a stock as "accrued interest" has to bond. Not many stocks are sold with "accrued dividend" or "with dividend," and then only in case of "guaranteed stocks" or stocks where the dividend is certain and fixed.

Active Account. †Bank deposits against which many cheques are drawn, and at frequent intervals; accounts which show running transactions.

Active Partner. †One actively engaged in the business, and who incurs full liability, as distinguished from "silent partner" and "special partner."

Acknowledgment. An officially certified statement made to a notary public or other public officer with seal, affirming the voluntary nature of some act by the acknowledger, which act is specified in the instrument.

Adjustment Account. An English equivalent of the American term, "controlling account."

Administration Expenses. †Expenses incurred in connection with the administration of a business, usually the salary and expenses of the executives and other expenses not directly chargeable to specific operating or selling expenses.

Administrator. †A person named by the probate court, or other proper authority, to take charge of the goods and estate of one dying without a will.

Advance Bill. †This is a regular "commercial bill" of exchange, only drawn against goods to be afterwards shipped instead of against a shipment already made.

Adventure Account. †Adventure Account, or "Venture Account," is a title frequently applied to specific shipments on consignment when made the subject of separate accounts. If at the risk and on behalf of the shipper as co-partner with others, the account is called a "Joint Venture" and is a form of joint account.

Advice Sheet. †Periodical written report of business transactions from branch office to head office, made daily, weekly, or monthly.

Affidavit. A written statement under oath and acknowledged before a proper officer. (See Acknowledgment.)

Affiliated Company. †A company which is related to another company through stock or bond ownership, operation agreement or other mutuality of interest.

Agent (Agt.) †A person duly authorized to act on behalf of another, or one whose unauthorized act has been duly ratified. Prin. 88 F.

Agreement of Co-partnership. Prin. 68; Form 16 H.

Agreement of Incorporation. Prin. 68; Form 16 R.

Allocate. †To place; to set apart.

Allonge. †A slip of paper attached to a negotiable instrument to receive endorsement for which there is no space on the instrument itself.

Allowance. A deduction from a debt allowed to a debtor for some reason not considered when the debt was made; an abatement.

Allowance Reserve. †An account to which should be credited a sufficient amount to cover allowances, price differences, returns (other than trade discounts) that is sufficient to cover this particular kind of loss on outstanding accounts receivable.

Amount (Amt.) The sum total of several items.

Amortization. †The gradual extinguishment of the amount of an asset, liability, profit or loss by pro-rating it over the period during which it will exist or during which its benefit will be realized. Specifically, (1) The gradual extinction of a debt, as, for instance, by means of a sinking fund. (2) The gradual reduction in the valuation of an asset, thus anticipating the time when it shall eventually become worthless; as distinguished from provision for depreciation or replacements because of physical loss or damage. (3) The absorption in the income or profit and loss accounts, during the pendency of the debt, of a discount incurred or of a premium realized in the sale of an obligation, which discount or premium may be carried in the meantime in a debit or in a credit suspense account.

Annuity. A sum of money payable yearly for a given number of years, or during life.

Appraisal. †The result of a valuation of property or assets, used mostly in connection with the valuation of fixed assets of a company or corporation.

Appreciation. Prin. 24.

Appurtenance. Any minor property or other thing of value, pertaining to or dependent upon a property or a business, as the small buildings or other improvements belonging to a lot or farm.

Arbitration. †The determination of a matter or matters in dispute by the decision of one or more persons called arbitrators, who, in case they disagree, may call in an umpire to make a final decision.

Article. (Art.)

Articles of Co-Partnership. The written agreement, or contract, governing the relations and mutual obligations of partners. Form 16 H.

Articles of Incorporation. Prin. 68; Form 16 T.

Assessment. †An apportionment of or call for definite contributions or payments.

Assessment Account. An account to which are carried from Profit and Loss as debits, the amounts assessed against the different stock holders.

Assets. †Property fixed or liquid, resources of any kind capable of being converted into money or value. The term is used sometimes as applying to goodwill, concessions, franchises, deferred charges, and in English accounting even to preliminary expenses incurred in the formation of a company. See Prin. 13 and Prin. 21-30.

The following distinctions may be noted :

(1) Fixed Assets. †Such assets as are stationary and may be regarded to a certain extent as permanent, such as real estate, buildings, plant, machinery, etc.

(2) Liquid Assets. †Such assets as are not fixed or permanent, but are subject to conversion into cash, such as raw and finished material, book debts, securities, etc.

(3) Floating Assets. †Same as liquid, sometimes called "circulating assets."

(4) Wasting Assets. †Such fixed assets as in the process of working are gradually disappearing or wasting away, such as mines, timber lands, quarries, and other such properties.

Assignment. A term commercially applied to a transfer of property in writing. Bank accounts, mortgage loans, and claims of various kinds, accruing, as, salary, growing crops, etc., are assignable, and if assigned for value, the assignee may collect or possess them for his own benefit.

Assignment in Bankruptcy. The transfer of property of a bankrupt assignor to the assignee, or person in whom it is vested, for the benefit of creditors.

Assistant. (Asst.)

Association. †A business organization composed of persons whose interests therein are mutual.

At. (@).

Attachment. A legal seizure of property to satisfy debt.

Attorney in Fact. †One who acts under the authority conferred by power of attorney.

Audit. An examination of records of account with a view to ascertaining their correctness. Prin. 81-90.

Audited Voucher Register. A columnar-ruled book designed to supplant both the purchase journal and creditors' ledger by showing in combined form not only the liability in favor of individual creditors, but the distribution of cost and expense. It is supported by vouchers which gather together a number of invoices and eliminate much detail work.

Audit for Accuracy. Prin. 83-83 D.

Audit for Fraud. Prin. 85.

Audit for Misappropriation. Prin. 85 D.

Audit for Suitable Books. Prin. 86.

Audit for True Record. Prin. 84.

Audit for Worth and Earning Power. Prin. 87.

Auditing. Prin. 81.

Auditing, some legal aspects of. Prin. 68.

Auditor. A person appointed to examine and verify records and accounts. Prin. 81 B.

Auditors' Records and Reports. Prin. 82 D and 90.

Auxiliary Books. Books containing records additional to those made in the posting books. Prin. 79.

Available Assets. †Those assets which are available for the payment of debts (includes goods unsold which do not come under "quick assets," also may include "supplies for operation").

Bad Debt-Reserve. †An account to which should be credited a sum sufficient to cover bad debts on outstanding accounts (but not trade discounts or allowances).

Balance. (Bal.) The excess of one side of an account over the other.

Balance Sheet. †A statement showing the financial position of a business, its assets and liabilities, the capital employed therein, as well as any reserves, surplus or deficiency there may be at a specific date.

Some accountants call any statement of assets, liabilities and net worth a "balance sheet;" others limit the term balance sheet to such a statement when derived from the ledger accounts, showing the ledger to be in balance. The author leans to the latter view in the discussions in the text.

Balancing an Account. An account is balanced by entering the difference on the lesser side, ruling and footing the two columns, and carrying the difference below the ruling to the side which is greater.

Balance of Trade. The difference between the value of exports and imports for a given country and period.

Bales. (bl.)

Bank. (bk.) A financial business that offers the following principal services to the public: (1) Safe keeping of money; (2) Checking accounts; (3) Loans; (4) Collections; (5) Exchange or the transmission of funds.

Bank Book. The book carried by a depositor to contain the banker's entries of deposits when made, and of the depositor's checks paid, when such book is balanced periodically. Form 15 C.

Bank Check. Prin. 62; Form 15 E.

Bank Discount. A certain per cent deducted from the amount of future due paper by a bank, for carrying the paper to maturity.

In the laboratory units of the American Bookkeeping Series, the bank discount is computed on the amount at the given rate, for the exact days from date of discount to maturity, and each day computed as 1/360 of a year.

Bank Draft. Prin. 62; Form 15 H.

Banking Forms. Prin. 62; Forms 15 A-15 L.

Bankruptcy. Prin. 88 I.

Bank Statement. Form 20 K.

Barrels. (brl.)

Barter. To traffic or trade one commodity for another without using money. This is a crude method of exchange which is now seldom practiced by civilized people.

Betterment. †Any addition to or improvement of a property, any expenditure which makes a property better or more valuable. In railroad accounting betterments include the "enlargement or improvement of existing structures, facilities, or equipment, of an improved or higher class taking the place of others previously existing." (Interstate Commerce Commission.)

Bill. †A bill is a promise to pay a fixed amount to a stated person at a specified time.

Bill-Book. †An account book in which is kept a record of notes receivable or payable with the particulars thereof, the dates of maturity, etc. See Form 13 M.

Bill of Exchange. †A bill of exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain sum in money to order or to bearer. Prin. 88 E.

Bill of Goods or Services. An itemized statement of goods sold or services rendered, showing the amount payable for same.

Bill of Lading. (B. L.) An itemized acknowledgment, by a transportation company, showing list of goods to be transported, with shipping directions, transportation charges, and other agreements as to shipment and delivery. Prin. 64; Form 15 V.

Bill of Sale. A document formally transferring ownership in personal property from one person to another. Form 16 D.

Bills Discounted. †Bills of exchange or time paper that have been discounted.

Bills Payable. All notes, bills of exchange or acceptances payable are termed bills payable, and may be kept in one account with this heading. See Notes Payable.

Bills Receivable. All promissory notes, time notes, bills of exchange, or acceptances receivable may be under the general term of bills receivable. See Notes Receivable.

Bills Receivable Register. Form 13 M.

Blotter. †Commonly called a book of original entry. A book in which a first and temporary record of transactions is made, later to be transferred, "posted," into books of more permanent record.

Board of Trade. An organization of business men for the advancement of commerce.

Bona Fide. In good faith; without deceit or fraud.

Bond. A document or agreement under seal. The ordinary

commercial bonds are issued by the Government, the State, a private corporation or an individual. All promise the payment of money, together with interest payments on the same. A coupon bond has interest coupons attached which are cut off and collected as they mature. Prin. 25 D.

Bond and Mortgage. †An instrument whereby money at interest is borrowed on a promissory note (bond) secured by an indenture or mortgage giving to the holder the right to foreclose and take possession by due process of law in case of failure to pay either principal or interest at the appointed time.

Bonded Debt. †The fixed indebtedness of a municipality or incorporated company in the form of bonds.

Bonded Goods. Merchandise stored in a bonded warehouse, or in bonded cars, the owner having given bonds securing the payment of import duties or of internal revenues, upon their removal or their arrival at some inland city of entry, and before a specified time.

Bond of Indemnity. †In investment matters the common use of the "bond of indemnity" is in case of a lost security. It is a form of guaranty protecting a corporation (firm or individual) in event of presentation at some future time of a security which had been lost by the owner and the corporation issuing the same had issued a new security in its stead.

Bonds Account. Prin. 25 D.

Bonus. A gift or extra allowance for a business favor or service, as the placing of a loan, the making of an investment. Cities and Chambers of Commerce often grant bonuses to those who establish new industries in a city.

Bonus Stock, or Capital Stock for Promotion. †Bonus stock or capital stock for promotion are terms used interchangeably for shares of capital stock set aside as remuneration to the promoter for the organization of the business.

Book Account. The account kept in the ledger with a person to whom credit sales, or from whom credit purchases, are made.

Bookkeeping. †Bookkeeping is the art of recording pecuniary transactions in a regular and systematic manner. Prin. 1, 4, and 5.

Book Profits. †Profits as shown by the books, not necessarily actual or real, but as shown by book entries.

Books Close. †In order that corporations, especially the larger ones, may pay a dividend, it is necessary to fix an interval of one or more days' duration, during which it is possible to make a correct list of the stockholders as shown by the transfer books, so that the dividends may be sent to the stockholders as of record the date provided for in the vote passed declaring the dividend. It is desirable that no stock shall be transferred during this process, and it is, therefore, customary for most corporations to "close their books," that is, their transfer books, during such an interval. This period generally precedes shortly the actual payment of dividend.

Books of Account. †All books or written records of any undertaking in which there are entries concerning its finances, wealth or obligations or merchandise movements; including also records of capital stock issues and transfers and minutes of directors' or stockholders' meetings.

Book Value. †The value of an asset as carried upon the books, as distinguished from the actual or market value of such asset.

Books of Original Entry. Such books as contain the first entries of transactions, as opposed to ledgers which contain the posted entries. Prin. 14.

Bound Ledger. Prin. 80 F.

Bound Ledger. Prin. 72 F.

Boxes. (Bx.)

Broker. One whose business is to act as agent in buying and selling financial paper, stocks or other property for others. His charge for the service is called brokerage.

Budget. †A budget is a statement of the estimated revenues and expenditures for a given period.

Bundles. (bdl.)

Burden Estimate. An estimate of the amount of the several items of manufacturing expense, covering a future period of one month, one year, or other time, for the purpose of distributing such estimated expenses proportionately to the various jobs as the latter are completed.

Burden, or Overhead (Cost Accounting). Elements of cost, which although they cannot be definitely assigned to any particular job, or even series of jobs, are a necessary part of the expense of manufacture, and must be taken into account in calculating costs.

Burden Rate. The manufacturing burden is to be distributed to the several jobs in proportion to the amount consumed by each job. Thus, the entire burden of a month is sometimes divided by the number of hours in the month, making a burden rate per hour, or by the value of the material manufactured, making a burden rate per dollar's worth of material, or by the wages paid for labor, making a burden rate per dollar in labor.

Bushels. (bu.)

Business. Prin. 2.

Business Forms. Prin. 62-69.

Business Ledger. The part of a complete ledger containing the nominal, or profit and loss, accounts.

Business Organization. A business organization is a combination of directing intelligence, labor, capital and equipment, working together to produce some utility, and to sell it.

Business Statement. A list of the profits and losses covering an accounting period, entered with more or less detail as the case demands. Also called a profit and loss statement. Forms 6, 7, 7 D, 8, 9, 12 N.

Buyer. (1) The one who makes the purchases for a concern. (2) The manager of a department in a department store, who is responsible for the purchases and sales in his department.

Call-Loans. †Short-time investments often made upon the security or pledge of bonds, stocks, goods or other personal property valued at more than the amount of the loan. Frequently these are payable on demand.

Capital. †This term as used in accounting is employed to express (1) The sum of the net assets of a business or undertaking, or that sum which remains after deducting the liabilities from

the assets of a business or undertaking. (2) Any principal sum (usually in cash, sometimes in property) contributed to an undertaking by a partner or individual for supplying the means to operate such undertaking. (3) The value or amount of interest any individual has invested in an undertaking, and (4) Any principal sum which is used or retained to produce income or profit.

Capital Account. †(1) An account opened and kept to indicate the amount of capital a partner has in a business, or an account showing the total capital invested in a business. (2) The term capital account or capital accounts is used in connection with sums invested in permanent assets, such as real estate, plant, machinery, etc., these being styled capital accounts because their province is to produce income or profit. See Prin. 37-39 D; Forms 10 E-F, 12 P, 13 P.

Capital Assets. Includes real estate, buildings and other structures, equipment and other personal property of a more or less permanent character, and cash on hand specifically applicable for these purposes.

Capital Expenditures. †All sums expended for additions to or improvements of properties.

Capital Expense. Prin. 43 A.

Capital, Fixed. †That portion of the capital of an undertaking which has been sunk in fixed assets, such as real estate, buildings, machinery, plant, etc., which are not intended to be sold but used to produce revenue and profit.

Capitalization of Earnings. †The issuing of securities based upon a corporation's earning ability; the issuing of securities upon which reasonable rates of interest or dividends can probably be paid from earnings, rather than making such issues equal in face value to the actual value of the property.

Capital, Nominal. †The full amount of capital stock which a company or corporation is authorized to issue.

Capital, Paid Up. †That portion of the capital which has been authorized issued and paid up by the stockholders or proprietors.

Capital Stock. †The amount of share capital issued or authorized by a company or corporation.

Capital, Uncalled. †That portion of the capital representing the difference between the amount of capital actually paid up and the amount of the face value of the shares.

Capital, Working. †That portion of the net capital of an undertaking which is used or is available for the working of such undertaking, properly speaking, the liquid assets of such undertaking.

Card Ledger. Prin. 80 H.

Care of. (c/o)

Carrying Charges. †The interest charged by brokers for the amount of money advanced by them to customers in marginal transactions. Also a Chicago Board of Trade term indicating storage rates, interest, and insurance on grain or provisions.

Cartage. (ctg.)

Cases. (cs.)

Cash. †Lawful money. Usually understood to include cheques or such other instruments as are received by banks for deposit.

Cash Account. Prin. 23 D.

Cash and Charge Record Book. Form 17 L.

Cash Book. (C. B.) Prin. 84 to 84 H; Forms 10 A, 10 B, 11 A, 13 B, 13 L, 13 Q, 17 B, 18 C, 23 E-J, 27 J-K.

Cash Discount. The allowance from the amount of a sale for immediate cash payment. Prin. 59 B.

Cashier. (1) One who has charge of money; (2) the executive officer of a bank.

Cashier's Account. (C. A.)

Cashier's Check. †A check drawn by a bank against itself, and usually signed by its cashier.

Cashier's Fund. An amount set aside from the general cash ordinarily for current expenditures in money.

Cash Journal. Prin. 73 G; Forms 12 W, 17 M, 22 D, 23 I.

Cents. (cts. or ¢.)

Certificate. A written voucher attesting to some fact; as a certificate of deposit, (which is a voucher that money has been deposited in a bank); a certificate of stock, vouching the ownership of stock in a company. Forms 15 J, 15 W, 18 I.

Certificate of Deposit. Form 15 J.

Certificate of Deposit Register. Form 20 B.

Certificate of Incorporation. †When it is desired to form an incorporated company, a paper called a "certificate of incorporation," or one having a similar title, must be filed with the Secretary of State under which it is desired to incorporate. Prin. 68, Form 16 S.

Certificate of Installment. Form 18 H.

Certificate of Protest. Form 16 M.

Certificate of Stock. Prin. 68, Form 15 W.

Certified Check. A check that has been certified, or accepted, by the bank on which it is drawn, making the bank responsible for its payment. Form 15 K.

Certified Check Register. Form 20 C.

Changing Single to Double Entry. Prin. 89 F; Forms 17 A-17 L.

Charge. To charge an account means to make an entry to be posted as a debit.

Charges Against Operations. Prin. 54.

Charter. (1) A document issued by authority of the nation or a state defining the rights and privileges of corporations. (2) To hire or let a conveyance of transportation; as a ship, a railway car.

Chattel. Any kind of property except real estate. Examples: merchandise, notes and accounts, animals, leases of real estate, etc.

Chattel Mortgage. Prin. 67; Form 16 G.

Check or Cheque. †A written order to banker to pay a certain sum of money to the party named, on demand, on or after the date specified thereon. Prin. 62; Form 15 E.

Check Book. Prin. 62; Form 15 E.

Checking-Account. The account of money deposited in a bank subject to check.

Check Mark. (√) A mark placed opposite amounts to show

that they have been verified or posted. Frequently the same amounts are checked over more than once. Different colored inks should be used in subsequent checkings.

Check Register. Form 23 G.

Check Sheet for Teller. Form 20 E.

Check Stub. Prin. 74 D; Form 15 D, 15 E.

Chose (pronounced shoz). A thing recoverable by an action at law. A "chose-in-action," is something to which one has the right but not the possession. Examples: A right to damages for breach of contract or for injury. Notes, bonds and other promises not negotiable, are commonly called choses in action, as they evidence the right to collect.

Circulating Cash. Cash in hand that may be used to meet the miscellaneous payments.

Classification of Accounts. †In a balance sheet, the stating of assets in order relatively to the possibilities of quick realization and of liabilities relatively to the urgency for settlement.

Clearing Account. †An account used to collect various amounts, the aggregate of which is to be pro-rated and distributed to other accounts leaving no balance.

Clearing House. An association of banks in a city for the purpose of daily adjustment of their claims against one another to be effected at one time and place.

Close Corporation. †A stock company whose shares and management are in the hands of a few persons, and the stock of which is seldom, if ever, publicly offered.

Closing an Account. An account is closed, by ruling closing lines, when it ceases to represent an element in the business. This may be when both debit and credit totals are equal, or when the difference between debit and credit sides are carried to some other account, as when an account is closed into Profit and Loss. Forms 10 L to 10 O.

Closing Entries in Journal. Prin. 72 H; Forms 12 O, 12 W, 14 D-14 F.

Closing the Ledger. Prin. 80 O.

C. O. D. Account. Prin. 23 D; Form 14 M.

Coin. Metal impressed with the government stamp, and used as money.

Collateral Security. Papers owned by a debtor and passed to a creditor as security for an obligation.

Collateral Loan. †The obligation or promise to pay of an individual, firm, or corporation, on demand or maturing in a year or less time, and which individual, firm, or corporation has deposited with the holder of the note, stocks, bonds, or other securities which, in case of the note not being paid when due, may be sold by the holder of the note and so much of the proceeds of the same as may be necessary to satisfy the debt retained by the lender, and the balance, if any, returned to the borrower.

Collateral Note. †A promissory note secured by stocks, bonds, mortgages, or other securities.

Collection Charges. The charges made by a bank or collector for collecting claims.

In the sets of the American Bookkeeping Series bank collec-

tion charges are computed at 15¢ per $100, or part thereof, unless otherwise specified in the transactions.

Collection of Accounts and Notes. Prin. 88 C.

Collection Register. Form 20 H.

Columnar Cash Book. Prin. 74 H; Forms 18 C, 24 F, 25 B.

Columnar Expense Book. Prin. 74 F; Form 12 X.

Columnar Journal. Prin. 73 F; Forms 17 M, 18 A, 22 D, 23 I.

Commercial Bill. †A draft, accompanied by a "bill of lading" and a certificate of marine insurance, drawn by a seller in one country against a buyer in another, on account of goods sold to latter.

Commercial Discounts. †Notes given by those engaged in commercial enterprises—dry goods, hardware, etc.—upon which the interest is paid in advance—"discounted." Sometimes the rate of "discount" is meant by the term "commercial discount."

Commercial Expense. †This term is applied generally to cover all expenses of doing business that are not applicable to the cost of a material or article manufactured.

Commercial Paper. Bills of exchange, drafts and notes given in the course of trade. Prin. 88 E.

Commission. (Com.) A percentage given for the sale or purchase of goods, or the transaction of other business by an agent.

Commissioner of Accounts. †A commissioner of accounts is an officer practically to superintend the financial operations as to receipts and disbursements of the city or town by which he is appointed.

Commodity. A term relating to everything movable that is bought and sold. Examples: goods, wares, merchandise, the products of lands and manufactures.

Common Carrier. One who, for pay, engages to transport goods or persons for anyone who chooses to employ him.

Common Law. Law based upon the precedent of usage, rather than that contained in the statutes enacted by legislative bodies.

Common Stock. †That part of the capitalization of a company upon which dividends may be paid only after satisfying the requirements of the floating debt, bonds and "preferred stock," if any.

Compact. An agreement or contract between parties.

Company. (1) A corporation or an association. (2) A term used in a firm name to designate other partners whose names are not given.

Compound Entry. An entry consisting of more than one debit or credit. Form 13 A.

Complete Expense Account. Prin. 53.

Complete Journal. Prin. 73 C; Form 12 A.

Complete Ledger. Prin. 80 B.

Compromise. An agreement to settle a claim by paying or receiving only a part of the amount. To adjust any kind of business differences by an agreement based upon mutual concessions.

Concern. A general term referring to a business and its owners, in the sense of an organization to accomplish some undertaking.

Condition of Business. The result shown by a financial statement. The condition depends on the amounts and kinds of assets and liabilities.

Consideration. The material cause of a contract. The thing promised, or the reason for the promise.

Consignee. One to whom goods are sent.

Consignment. (Const.) Goods consigned to an agent to be sold.

Consignment Charges Account. An account charged by a commission house for cash paid on consignments received, such payments to be later deducted from proceeds of sales.

Consignment Sales Account. An account credited by a commission house for sales of consignment goods, and charged when such sales are accounted for to the consignors. Form 15 Q.

Consignor. One who sends or consigns goods.

Consolidated Balance Sheet. †A balance sheet which exhibits the combined financial condition of a number of business organizations.

Consumer. The person that uses up, appropriates to himself, or changes the character of a utility received.

Construction Account. †An account employed to show the cost of construction of a piece of property. It is usually made to contain all items (such as material, labor, expense), entering into the work and in some cases interest on borrowed money is charged against this account, and even the discount on the sale of bonds issued for the work.

Contingent. Not certain. Contingent assets, Prin. 28 G; contingent liabilities, Prin. 34; contingent fund, Prin. 23 C.

Contract. †A contract is an agreement, based upon a cause or consideration between two or more persons, to do, or to abstain from doing, some particular act or thing.

Controlling Account. †An account usually kept in the general ledger of a business and is supposed to control a number of separate or detail accounts kept in another book or ledger. It is properly an account kept to contain the totals of the debits and credits of a number of accounts in order to show at any time the balance of the aggregate of these accounts. It is used mainly in connection with accounts receivable and accounts payable. Prin. 21 C; Form 18 B.

Controlling Interest. †When one person, or a number together for their mutual benefit, obtain, by ownership or by proxies, their right to cast the votes for a majority of the shares of stock in any corporation, such person or persons are said to have a "controlling interest."

Convertible. Capable of being turned into money, or other equivalent, as a convertible bond or other security.

Co-Partnership. The condition effected through the joining of two or more persons into one firm for the purpose of carrying on any enterprise; a partnership. See Form 16 H.

Copyrights Account. Prin. 28 B.

Corporation. †A corporation is an artificial body created by law deriving all its powers from the law which granted the charter by which the corporation is privileged to carry on business, as set forth in its articles of incorporation. Prin. 88 H.

Correspondence. An interchange of letters.

Correspondents. (1) Banking firms and collection agencies with whom a bank has accounts are called its correspondents. (2) Any one with whom business is carried on by means of letters.

Cost Accounting. The branch of accounting that has to do with gathering the items of expenditure applied to a single piece of work, or a single job, or some unit manufactured. General accounting includes the records of the cost of conducting the business as a whole, while cost accounting includes the records of the cost of producing or maintaining certain units separately considered.

Cost of Merchandise. Prin. 23 G.

Cost Ledger. †The books in which the individual "job accounts" showing the various elements entering into the cost thereof are kept.

Cost of Sales. †The cost of producing or manufacturing the material or goods sold.

Coupon. †Interest coupons are small certificates attached to that part of the bond representing the principal sum, each coupon representing the interest upon the bond for a certain period, there being attached to each bond a sufficient number of these coupons to represent the interest for the entire length of time which the bond may be outstanding before maturity.

Coupon Bonds. Bonds with interest coupons attached.

Covenant. A mutual agreement under seal.

Credentials. Testimonials giving authority.

Credit. (1) Trust given to a debtor. (2) Mercantile reputation entitling one to be trusted. (3) (Cr.) The side of an account on which we enter all values yielded from the source represented by the title.

Creditor. (Cr.) One giving credit; one whom we owe.

Creditors' Ledger. †The creditors' ledger contains the individual account of each trade creditor.

Cumulative. †This, as a rule, has reference to "preferred" shares of stock. Unpaid dividends upon such stocks accumulate from year to year and must be paid before the common or other stocks which come after can receive anything. A "cumulative" issue often acts to the detriment of the common shares, as it naturally lessens the chances of dividends upon them.

Currency. Paper money as distinguished from coin. In a broader sense, the entire circulating medium of exchange.

Current Assets. Prin. 23-23 M.

Current Liabilities. †Amounts owed subject to constant change, such as accounts payable, loans payable, bills payable, interest and dividends accrued towards the next payments, payrolls, etc. Floating indebtedness of all kinds comes under this heading. Prin. 32.

Customers. The persons to whom the business regularly sells its goods or services.

Customers' Ledger. †The customers' ledger contains the individual accounts of each customer or trade debtor.

Custom House. The place where government duties are collected.

Daily Balances. †Trust companies, as a rule, and sometimes other banking institutions, allow interest to their depositors upon "daily balances" of over a certain amount, say $300 or more.

Daily Statement Book for Bank. Form 20 K.

Daily Audit Sheet. Form 17 N.

Daily Balance Slip. Form 17 K.

Day Book (D. B.) †One of the account books used in single-entry bookkeeping, another name for which is "blotter." See Prin. 71; Form 17 A.

Days. (ds.)

Days of Grace. Three days allowed after the date fixed for payment of notes and other negotiable instruments before the paper is legally due. Days of grace have been abolished in all but nine states. States still retaining days of grace may be found by referring to "Interest Laws" in this Index-Commentary.

Dead Weight Expenses. †In cost accounting a term sometimes used to indicate certain expenses, such as rent, taxes, power, insurance, heating, lighting, etc., because such expenses are payable whether the volume of work done is small or large.

Debentures. †A long term unsecured promissory note so designated in the instrument. The term debenture bond is a misnomer.

Debenture Bonds. †Debenture bonds may be said to be bonds issued in much the same manner as shares are issued to preferred stockholders, and the holders thereof may be termed preferred creditors.

Debit. An entry to indicate the receipt of cash, or the cost to the business of some business utility other than cash. Debits are entered in the left of the two money columns of an account.

Debit and Credit. Prin. 72-72 I.

Debt. The amount owed by one to another.

Debtee. †One to whom a debt is due; a creditor.

Debtor. (Dr.) The one who owes an amount.

Deed. †A document in writing (generally a printed form to be filled out in writing is used) rendered authentic by the seal of the party whose intention it is supposed to declare; in practice, a document used for the purpose of transferring the title of real property from one to another. In law a "deed" is any instrument bearing a seal. See Form 16 A.

Defalcation. (1) An abatement or discount; (2) also, an embezzlement. Prin. 85 C.

Defaulter. A person who fails to account for money or property intrusted to him, usually applied to custodians of public funds.

Deferred Annuity. †A fixed sum of money payable yearly, but the payment of which does not begin until the expiration of a certain time or after the happening of some event, as the death of a person.

Deferred Assets. †Assets that have no tangible or permanent value, but which represent expenditures for the benefit of a future period, and for that reason are carried on the books and gradually absorbed. Prin. 28 D.

Deferred Charges. †That part of operating expenditures paid within a given period which is not properly a charge against the

income of that period and which, therefore, is deferred or postponed until a period following.

Deferred Credit to Income. †An item containing an element of profit, the benefit from which is deferred to a subsequent accounting period.

Deferred Liability. †An obligation accrued but not payable until some future date.

Deferred Operation Credits. †Liability values representing receipts for which value has not been rendered, as an advance payment received for contract to perform certain work which has not been performed, but on which, when performed, the payment will apply.

Deferred Stock. †The name given to a class of stock upon which the payment of the interest or dividend is deferred until some other prior securities have received theirs in full.

Deficiency. †The term "deficiency" without further qualifications signifies the insufficiency of the assets or funds of a business or estate to meet, discharge or satisfy its claims, liabilities or obligations.

Deficit. † (1) An excess of expenditures over income. (2) Any balance of liabilities over assets.

Del Credere. †A commission charged by a broker or factor who guarantees the solvency of the customer for whom he transacts business.

Delivery. The transfer of money or property to another.

Demand. A formal presentation of a claim.

Demand Loan. †A form of note or promise to pay, the borrower having the right to pay off the loan at any time—presumably not the same day it is made—and likewise the lender the right to demand payment, Sundays and legal holidays being excepted in each case.

Demurrage. †When any vehicle of transportation, such as a car or vessel, is detained beyond the time allowed either for loading or unloading a per diem charge called "demurrage" is made.

Department. (Dept.) Dept. Expense, Prin. 54 F.

Departmental Accounts. †A system of accounts which relate to the separate workings of the departments of any concern usually in relation to the profit or loss shown by such departments.

Depletion. Prin. 58 D.

Deposit. (Dep.) The funds left in a bank for safe keeping, or on checking account.

Deposit Ticket. Form 15 B.

Deposition. Testimony of a witness legally taken and committed to writing by a qualified official.

Depositor. †One who places money in a bank; that is, makes a deposit, is the usual meaning in banking affairs; but a depositor may be one who commits securities, valuable papers, or anything to the care of another. (a)

Depositor's Statement. Prin. 62; Form 15 G.

Deposit Slip. Form 15 B.

Depreciation. †As understood and used in accounting the measure of deterioration in value by reason of wear and tear, decay, or other causes, of property, plant, machinery, and other assets. Prin. 24.

Depreciation Account. †An account containing charges for depreciation, the balance of which is transferred periodically to Profit and Loss account. Prin. 54.

Depreciation Fund. †A fund set aside usually created out of earnings, to provide for depreciation of plant, property, etc.

Depreciation Reserve. †An amount set aside out of earnings and carried as a credit to offset any deterioration of assets which has taken place or is likely to arise.

Deputy. A person appointed to act in the place of a public official.

Detail Sheet. A columnar sheet used to divide the items making up one account into several subdivisions. See Forms 18 M, 18 N. 25 D.

Detail Strip from Cash Register. Form 17 J.

Diminishment. Prin. 54.

Direction on Shipping Case. Form 18 J.

Direct Labor. †Also called "productive labor." Labor that can be charged directly to an article or group of articles.

Directors. The persons chosen to manage the affairs of a company or corporation. The stockholders of banks, railroad companies and other corporations are, as a rule, so numerous and reside so remotely one from another, that it is physically as well as legally necessary to select a small body of directors from their number, to act together in the general management. Directors are usually elected annually.

Disbursements. †Cash payments made during stated period, regardless of the purpose of the payment.

Discount Account. †In bookkeeping practice, this account appears to be charged with the following: (1) The discount paid or allowed to customers on the payment of their accounts. (2) The amount paid to bankers or brokers for discounting bills receivable or accommodation paper. (3) Sometimes interest paid on loans. The difference between the amount realized on the sale of bonds or securities and their par value is called discount. This is sometimes capitalized and carried as an asset, and sometimes as a suspense item to be charged off gradually.

Discounting. Transferring to a bank or broker notes receivable or other time paper, for an amount in cash less than the amount collectible at maturity. The one disposing of the notes is usually liable for their payment on failure of the maker to pay.

Discount on Bonds Account. The account chargeable for the difference between face and amount realized from issue of bonds, made by a company, and sold below par.

Discount Reserve. †An account to which should be credited a sufficient amount to cover trade discounts on outstanding accounts receivable.

Discount Ticket. Form 15 L.

Discretionary Pool. †For all practical purposes the same thing as a "blind pool;" at least, the one in control is allowed entire freedom to do as he sees fit with the interests of all.

Dishonor. Refusal by a debtor to accept or to pay commercial paper when it is presented.

Dissolution of Partnership. †Dissolution of partnership is the act of breaking up an association formed for the purpose of

trade, or the act of retiring from such association of one or more of the parties concerned.

Distribution of Net Profit or loss. Sole proprietorship, Prin. 60.

Distribution Register. †A columnar-ruled book of account in which purchases, wages, expenses or other amounts may be recorded and divided into classifications or allotted to separate accounts in the same process. (Not a voucher-register.)

Dividend. (Div.) The share in profits passed to a stockholder.

Dividend Account. An account credited from Profit and Loss or Surplus, when dividends are declared, and charged when such dividends are paid to stockholders.

Dividend Book. †The dividend book shows a record of every dividend declared by the directors, the shares held by each stockholder, the amount of dividend to which each stockholder is entitled, together with each stockholder's signature, showing the receipt of the dividend.

Dividend in Liquidation. †When a business or industry of any kind is being wound up, closed out, "liquidated," and money paid from time to those to whom it is due, the creditors, stockholders, owners of the business, depositors (in case of a bank), etc., these payments are called "dividends in (process of) liquidation."

Dividend Reserve Account. †For the purpose of equalizing the payment of future dividends, i. e., to permit a company in a bad year to pay its dividend upon shares at the same rate per cent, as it had done in previous years.

Documentary Bill. †A "bill of exchange" accompanied by a "bill of lading," insurance policy and invoice covering the shipment of goods, which papers show the security which is behind the bill of exchange.

Dollars. ($)

Donated Stock. †Capital stock of any given corporation which once having been issued for value is presented to the company, usually for the purpose of being sold to raise working capital.

Dormant Partner. †A dormant partner is one who invests capital but takes no part in controlling or directing the affairs of the firm.

Double Entry. (D. E.) A method of bookkeeping in which the required debits and credits for all transactions are equal. Prin. 70.

Dozen. (doz.)

Draft. (dft.) An order drawn by one party (the drawer), directing a second party (the drawee), to pay a sum of money to the order of a third party (the payee). Prin. 65; Form 15 T-U.

Draft, Accepted. Form 15 U.

Draft Register. Form 20 D.

Drawee. The person on whom checks or drafts are drawn.

Drawer. The person issuing a check or draft.

Drawing Account. †An account to which current transactions affecting a partner are debited or credited for the purpose of keeping them apart from the capital account. An allowance made to salesmen or other employees for salary or expenses.

Drayage. Charges made for transfer of goods by dray.

Due-Bill. A written acknowledgment of a sum owed.

Duplicate. A copy. Duplicate bills consist of one original and one copy.

Duplicate Billing Systems. Prin. 75 C and 75 D.

Each. (ea.)

Earned Shop Cost. An added value placed on material in process of manufacture, when taking inventory.

Earnest. An initial part payment or delivery to secure a verbal contract of sale.

Economic Accounts. †Whenever any increase or decrease of wealth is realized or recognized it is recorded, according to its nature, in one of these subordinate accounts, which we shall call, as a whole, the economic accounts.

Eleemosynary Institution. One supported by charity, or public funds, as a free hospital, or asylum.

Embezzlement. The act of a trustee or other agent, of unlawfully converting to his own use money or property in his possession which belongs to another.

Encumbrance. A claim or lien against property which diminishes its asset value.

Endorsement. Any subsequent writing on the back or face of commercial paper, which affects the terms or conditions of payment. Form 15 F.

Entries. Original, Prin. 71-71 I; typical journal entries, Prin. 72-72 H.

Entry Tickets. Forms 23 C, 23 F, 23 L.

Equipment Account. Prin. 24 E; Form 10 D.

Equity. †The common meaning in reference to investments is the value in the property over and above its indebtedness; for instance, to the stockholders of a railroad belongs its "equity." In case of a mortgage upon real estate, the value of the property above the mortgage would be the "equity." The net value of a thing after deducting any incumbrances, more particularly of real estate.

Errors of Fraud. †Errors of fraud are those made with fraudulent intent.

Errors of Omission. †Errors of omission are items left out carelessly or maliciously.

Errors of Principle. †Errors of principle are those made by persons not acquainted with accounts.

Escrow. A deed, bond, or other written engagement, delivered to a third person, to be held by him until some act is done or some condition performed, and then by him to be delivered to the grantee.

Establishment Expenses. †In cost accounting those expenses which cannot be charged directly against the cost of an article manufactured but are spread over a volume of work, are sometimes called "establishment expenses." They include such items as taxes, insurance, heating, lighting, indirect labor and miscellaneous expenses.

Estate Account. †In executorship accounting an estate account is opened to show the net value of the estate by crediting thereto all the assets of the estate as well as any profits derived from their realization, and charging thereto all liabilities as well

as funeral and administration expenses, and losses on realization of assets.

Estimate Book for Lumber. Form 17 R.

Examination (or Bank Examination). †What is usually understood in commercial accounting as a balance sheet audit, i. e., a count and verification of the balances of asset and liability accounts shown by the books as of the close of business on any given date. This is the most common, one might almost say universal, work that is done by accountants for banks. In only a very few instances can the work be termed an audit, as understood in commercial accounting.

Exchange, Domestic. †(1) The cost of collecting out-of-town checks in the United States and Canada, as distinct from foreign exchange, which has to do with the purchase and sale of foreign bills, etc. (2) Premium on bank drafts.

Note.—In the laboratory units of the American Bookkeeping Series, exchange on bank drafts is computed at 10 cts. for every hundred dollars and additional amount of $50. On a single amount of less than $50, 5 cts. bank exchange is allowed when purchasing a draft; when the draft is for hundreds, no exchange is charged on an additional amount less than $50.

Ex-Dividend. A term used to describe stock sold after the transfer books are closed. The seller of the stock receives the dividend, the buyer receives the stock without the dividend.

Execution. (1) The written authority given by a court to an officer directing him to enforce a judgment. (2) The act of signing and sealing a legal instrument.

Executor. †An executor is a testator's personal representative named in his last will and testament.

Expenditure. †This term is often used by accountants to indicate disbursements of money only. In other cases expenditure is used to indicate not only that which has been disbursed but incurred as well, and in this sense it is mostly used.

Expense Account. †Expense is either the title of an account or a general term applied to a series of accounts for recording the expenditures incidental to the management of a business or enterprise, for which no permanent, subsequently convertible, or substantial value is received, as, for instance, rent, insurance, clerk hire, etc. Prin. 53-58 D.

Expense Book. Prin. 74 F; Form 12 X, 18 N.

Expenses Divided. Prin. 43 A.

Extension. The results computed from a certain column or columns of figures, and carried to another column.

Exterior Accounts. †Exterior accounts are those that alone affect persons outside of the business.

Face. The principal sum of money written in a note, draft, check or other commercial paper, as contrasted with the "amount," which is the principal sum and interest added.

Factor. An agent or commission dealer.

Factory Account. †An account kept in the general ledger of a manufacturing business which serves as a controlling account of the factory ledger.

Factory Cost. †The material, labor and indirect expense

cost of any article; i. e., all expense necessary to manufacture an article.

Factory Ledger. †The factory ledger is that record in cost accounting which arranges and classifies the information contained in the original factory records.

Factory Overhead. †In cost accounting, overhead factory expense, or labor and expense not directly apportionable to specific increments of production. Prin. 23 L.

Factory Supplies. †Miscellaneous supplies consumed in the process of manufacture or maintenance of the factory.

Filing. Prin. 69.

Finances. Funds or money. Financial operations are those involving the receipt and payment of cash.

Finance Bills. †"Bills of exchange" (which must first be understood) on foreign countries issued by American bankers against credits or loans granted them by bankers in other countries, and not against shipments of goods.

Financial Records. Prin. 4.

Financial Statement. Prin. 10.

Finished Goods Ledger. †A subsidiary ledger controlled by the finished goods account in the general ledger showing, with regard to the stock of finished goods, the receipts, issue and balance on hand according to classes, qualities, sizes, etc.

Fire Insurance. †Fire insurance is a contract by which the insurer undertakes, in consideration of the premium, to indemnify the insured against loss through fire to a specified extent to the property which is the subject-matter of the insurance.

Firkin. (fir.)

Firm. A business organization owned by more than one investor.

Fiscal Year. †Any yearly period, regardless of the calendar year, at the end of which any firm, corporation or municipality may close its books in order to determine its financial condition.

Fixed Capital. †Capital which exists in a fixed or permanent shape. All fixed assets, such as real estate, buildings, machinery, etc., may be referred to as fixed capital.

Fixed Charges. †The charges upon a revenue or other account which do not vary, such as interest on bonds, debentures, etc.

Fixed Property Accounts. Prin. 24.

Fixtures. The attachments to real property in the nature of furnishings, as shelves, counters, gas and electric apparatus, etc.

Flat. A term referring to a price of commercial paper that does not take into account accrued dividends or interest, sometimes called a "lump price."

Floating Capital. †Capital which is not in a fixed or permanent shape, but is available or convertible, such as raw material, book debts, cash, etc.

Floating Charge. †An expression meaning a lien or charge on the general assets of a corporation, generally made in favor of debenture holders.

Floating Debt. Miscellaneous obligations for the payment of which no special provision or fund has been made. The floating debts are to be paid out of the current incomes.

Floating Property. The commodities or material owned by the business for consumption, manufacture or sale. The items making up such property, since they are constantly undergoing change, are not itemized in ledger accounts, but are ascertained from time to time by inventory. Form 13 E.

Fluctuation. The rise and fall in values incident to the conditions of commerce. Fluctuation downward is sometimes confused with depreciation, which is a very different matter.

Folio. (fol.) A page in an account book; sometimes two opposite pages having the same number.

Foot or Feet. (ft.)

Footing. The sum of a column of figures. See Form 12 R.

Foreclosure. The act of taking legal possession of property under the terms of a mortgage.

Forgery. Any unauthorized alteration of a commercial paper or document which affects its value or the interests of those who hold it.

Forwarded. See Forms 10 J and 10 K.

Fractions of a Cent. In the sets of the American Bookkeeping Series, when a final result of computations on bills, notes, etc., involves a fraction of a cent, one-half or greater than one-half, the fraction is counted as an additional cent. When discount involves a similar fraction, it is counted an additional cent of discount. Fractions less than one-half cent are disregarded in extended amounts and final results.

Franchise. A valuable privilege granted by municipal authority to a person, firm or company, to be used in carrying on a business. The right of street car, telephone, light, and other public service corporation to use the streets for tracks, poles, wires, etc., is secured by franchise granted by municipal or state authority.

Franchise Account. Prin. 28 C.

Free on Board. (f. o. b.) Merchandise sold "f. o. b." is delivered to the transportation company at the point named in the terms of sale, without expense to the buyer.

Free Surplus. †The amount which is available for further appropriation, as distinguished from the amount which must be held available to meet unincumbered appropriations and contingent liabilities.

Freight. (frt.) (1) The compensation to railroads or other carriers for transportation of goods. (2) The goods transported are termed freight.

Freight and Express Account. †A freight and express account is designed to show the amount paid for freight on goods bought, called "freight in," and on goods shipped, called "freight outward." The account is charged with all express and freight charges, and is credited for any returns, rebates, or for any freight paid for the customer in advance, which he has to pay for. The account of "freight in" is closed at the end of the period into the manufacturing account, and the "freight outward" is closed into the trading account.

Freight Expense Bill. Form 24 C.

Freight Forwarded Book. Form 24 D.

Freight-In. †A freight and express account designed to show the amount paid for freight on goods bought, called "freight-in."

Freight-Outward. †The amount paid for goods shipped is called "freight outward."

Freight Received Book. Form 24 E.

Fuel Account. †The fuel account is kept to show the amount expended to produce power for the plants and machinery needful in the production of goods. The account is charged for all money so expended, and is finally closed into manufacturing account, since it is a part of the cost of the manufacture of goods.

Funded Debt. †That portion of a debt which is represented by a bond issue and payable at a distant date.

Fund. (1) Money or capital set aside for a special purpose. (2) The term "funds" often means ready money. Prin. 23 C and 25 A; Form 10 C.

Furniture. The movable general equipment of a building for the use of the persons occupying, e. g., chairs, desks, carpets, filing cabinets, etc.

Furniture and Fixtures Account. Prin. 24 B.

Gallons. (gal.)

General Accounts. The accounts kept in the general ledger together with the cash account.

General Cash Book, or main cash book. The book containing the important records of cash receipts and payments as opposed to the petty cash book, in which the small or insignificant items are entered.

General Expense. Account of, Prin. 43 A; Form 12 T.

General Journal. Prin. 73 D; Form 12 A.

General Ledger. Prin. 72 C.

Goods. Merchandise or commodities.

Goods in Process. †A term used at dates of inventory in large manufacturing plants and establishments showing the condition (by technical or commercial terms) and the value of materials as ascertained at inventory.

Goods Returned. †An account to which are charged any sales returned by reason of the goods being damaged or unsatisfying for any other reason; the sum of the balances of this account and of the allowance account, plus discounts, being the deductions from gross sales made in ascertaining net sales.

Good Will. †Whilst good will is a general term capable of wide application it is generally used in accounting to represent the balance between the value of property and assets acquired by a corporation or concern, and the capital stock issued against such net assets; sometimes it is included in accounts as a distinct item calculated on a specific basis, but more generally it is used in a very indefinite way.

Good Will Account. Prin. 30.

Gross. (gr.) The entire amount or bulk before deductions are made. Gross earnings are earnings before expenses are taken out. Gross weight is weight before the weight of case or container is deducted.

Gross Profit. †In commercial bookkeeping the difference between the cost of goods bought or manufactured and the selling price thereof.

Gross Trading Profit. Prin. 55.

Group Account. †An account corresponding to a section of the statement of income and profit and loss into which the accounts corresponding to the details thereunder are transferred in closing the books. Examples: income from sales, cost of sales, selling expense, administrative expense, deductions from income, etc.

Guaranty. (guar.) (1) A surety for the performance of a contract in case of failure by the contracting party. (2) A security against loss.

Guard Book. †A term used in English and Scotch bookkeeping to indicate a book in which the original invoices of purchases, etc., are kept or pasted.

Guardian. †One legally intrusted with the care of the person, and management of property, of a minor, imbecile, or other person incapable of managing his affairs. Usually appointed by the court, but may sometimes be appointed under a will.

Guests' Ledger. †The ledger in which are kept the accounts with the guests of a hotel.

Half. (hf.)

Handkerchief. (hdkf.)

Hogshead. (hhd.)

Holding Company. †A corporation owning the stocks of other corporations from which it derives its principal income through dividends.

Honor. To accept or to pay a written obligation according to its terms.

Hundred. (C.)

Hundred Weight. (Cwt.)

Hypothecate. To subject securities to legal liability for the payment of a debt without delivery or transfer of title. See Collateral.

Immaterial Assets. †A generic term for assets not material in nature, as good will, rights under leases, patents, etc.

Impairment Account. †An account which exhibits the net insolvency of a company, i. e., the excess of its liabilities, including its paid up capital, over its assets.

Impersonal Accounts. Accounts which represent conditions and record the profits, losses, receipts, expenditures, assets and liabilities, but do not represent relations with persons.

Imprest Fund. †A fund impressed or earmarked for a particular purpose, e. g., petty cash fund, which is periodically reimbursed for the exact amount expended so as to restore the fund to its original amount. See Prin. 24 E.

Income. †The account which sets forth the entire income for a fixed period, whether actually received or not.

The gain which proceeds from property, labor or business.

The remuneration derived from skill or labor.

The proceeds of the property of an estate.

Income Accounts. Prin. 52.

Income Tax. Prin. 88 K.

Income and Expenditure Account. †An income and expenditure account (like a profit and loss account) states the entire income for the period to which it relates without regard to whether the same has been collected or received in cash; and also the total expenses properly chargeable against said income without regard to whether the same have been paid or are still owing, and therefore takes cognizance of outstanding assets or liabilities both at the commencement and close of said period.

Income and Expense Account. Prin. 59 C.

Income from Property. Prin. 24.

Income and Profit. Prin. 43.

Indenture. A mutual agreement in writing. Form 16 A.

Index. Prin. 80 E; Form 12 B.

Index Ledger. †A ledger arranged alphabetically with index sheets interspersed.

Indirect Labor. †Also called "unproductive labor." Labor which cannot be charged directly to any article or any special classification thereof.

Individual Deposits. †(Banking). Individual deposits would have reference to all deposits other than by banks and trust companies, United States government, or from the banks' agents. It would include deposits of firms, individuals, corporations in general, private bankers, etc.

Individual Ledger. †A term used to designate a customer's ledger.

Indorsee. †The party indorsing a paper, by such an act, must assign or transfer certain rights therein to another person called the "indorsee;" that is, the person to whom a cheque, note, etc., is indorsed, or made payable by assignment.

Indorser. †A person who indorses a cheque, note, etc.; that is, writes his name across the back and by this act becomes liable for its payment.

Industrial Processes. Extraction, transportation, transformation, trade, service. Wildman.

Industrial Securities. †Securities issued by manufacturing companies.

Inheritance Tax. A state tax imposed upon property inherited, not a tax collectible from year to year like city taxes, but collectible only once—at the time of the inheritance of the property, and payable to the state only.

Insolvency. Inability to meet indebtedness. A business is insolvent when its liabilities exceed its assets.

Installment. One of the parts of a debt payable at intervals. The installment system of selling property useful to families, such as books, furniture, homes, etc., whereby payment is made weekly or monthly, is common.

Installment Book. †An account book used for the record of installments due and payable on stock or property.

Installment Certificate. Form 18 H.

Instant. (inst.) In the current or present month.

Insurance Account. †The insurance account is designed to show the amount paid to a company or companies, representing a premium, or premiums, whereby such company or companies hold themselves responsible for any pecuniary loss to the insured. Prin. 28 E.

Insurance Policy. (Ins. Pol.) The certificate given by the insurance company to the assured, obligating the company to reimburse either wholly or in part for any losses occasioned by fire, water, storm, etc., as specified in the policy. Form 16 I.

Insurance Report. Form 16 K.

Intangible Asset Accounts. Prin. 28.

Interest. (Int.) A percentage allowance for the use of money or its equivalent for a given time, usually one year.

In the laboratory units of the A. B. S., interest computations, except bank discount, are made by the ordinary interest method; that is, the time is computed in months (1/12 of year) and days (1/30 of month), found by subtracting the earlier from the later date, unless otherwise specified in the transactions.

Interest and Discount Accounts. Prin. 59 A.

Interest Laws and Grace on Notes. (Revised 1918.) After the states named ,there follow, first, the legal rate of interest in the states; second, the highest rate allowed by contract; third, in states where three days of grace are allowed, the word "grace" follows:

Alabama, 8, 8; Alaska, 8, 12, grace; Arizona, 6, any; Arkansas, 6, 10, grace; California, 7, any; Colorado, 8, any; Connecticut, 6, any; Delaware, 6, 6; District of Columbia, 6, 6; Florida, 8, 10; Georgia, 7, 8; Idaho, 7, 18; Illinois, 5, 7; Indiana, 6, 8; Iowa, 6, 8; Kansas, 6, 10; Kentucky, 6, 6; Louisiana, 5, 8; Maine, 6, any; Maryland, 6, 6; Massachusetts, 6, any; Michigan, 5, 7; Minnesota, 6, 10; Mississippi, 6, 10, grace; Missouri, 6, 8; Montana, 8, any; Nebraska, 7, 10; Nevada, 7, any; New Hampshire, 6, 6; New Jersey, 6, 6; New Mexico, 6, 12, grace; New York, 6, 6; North Carolina, 6, 6, grace; North Dakota, 7, 12; Ohio, 6, 8; Oklahoma, 6, 10, grace; Oregon, 6, 10; Pennsylvania, 6, any; Rhode Island, 6, special law; South Carolina, 7, 8, grace; South Dakota, 7, 12, grace; Tennessee, 6, 6; Texas, 6, 10, grace; Utah, 8, 12; Vermont, 6, 6; Virginia, 6, 6; Washington, 6, 12; West Virginia, 6, 6; Wisconsin, 6, 10; Wyoming, 8, 12, grace.

Interior Accounts. †Proprietary and economic accounts are interior accounts.

Intermediate Ledger. †A ledger used for the purpose of recording those sales and purchases of a trader which are of almost daily occurrence with the same person, the total of which are posted at monthly or other periods.

Internal Accounts. †The accounts which represent the different pieces of property and difference forces at work within the business itself.

Internal Check. †A check to protect against error which may arise where the record of accounts is such that the entries might balance and still be incomplete.

Intestate. Having died without leaving a will.

Inventory. †The annual account of stock of a business.

A schedule of assets or property.

An itemized list of goods or valuables with prices attached.

Inventory Account. Prin. 23 F.

Inventories Book. Prin. 77.

Invested Funds. Prin. 25.

Investment. (1) The appropriation of money or capital for

carrying on business, with a view to profit and with a risk of loss. (2) The purchase of securities with a view to profit from their income.

Invoice. (Inv.) An itemized statement of goods sold showing prices, terms and amounts. The invoice is delivered to the buyer by the seller. Prin. 62; Form 15 O.

Invoice Book. (I. B.) See Prin. 76 C; Form 13 K.

Jobber. A merchant who buys goods from importers and manufacturers, and sells in quantity to wholesale and retail merchants.

Joint Account. †A record of the transactions of some particular undertaking where two or more parties combine in contributing the necessary capital and services and sharing the profits or losses resulting therefrom.

Joint Stock Company. A partnership with the capital divided into shares held by the partners. The powers and privileges of a joint stock company are defined by laws differing in detail in various states.

Journal (J.) †A book used for recording such transactions as cannot be passed through other records of original entry, and for recording all transfers from one account to another. Prin. 8.

Journalizing. Prin. 71-71 G, inclusive.

Journal Voucher. †A properly approved instrument in writing authorizing an entry on a book of account.

Judgment. The decision of a court supporting a claim against a debtor.

Judgment Note. A promissory note containing a special agreement giving the payee power of attorney to confess judgment in behalf of the maker. This dispenses with necessity of suit for collection, and permits prompt attachment of property to satisfy the note in case of its dishonor.

Junior. (Jr.)

Labor Account, or Wages. †This account shows that amount of money expended in manufacturing as remuneration to laborers for converting raw material into salable commodities. Prin. 23 K.

Labor Hour. †A basis for the distribution of overhead. As a unit it consists of the labor of one operative one hour.

Landlord. The owner of real estate which is leased to tenants.

Land Buying. Prin. 88 D.

Lease. A contract, in writing, granting the occupancy of property for a given period at a stated compensation. Form 16 C.

Ledger (L.) †The principal book employed in the system of bookkeeping by double entry, wherein all the transactions recorded in the journal and subsidiary aids thereto are focused, classified and arranged for the purpose of ready reference. Prin. 21 and 72.

Legal Aspects of Auditing. Prin. 88-88 K.

Legal Assets. †Property which creditors might make available in a "Court of Law" for the payment of the debts of a deceased person.

Legal Tender Money. Any money which, by law, a debtor may require his creditor to receive in payment unless there is a contrary stipulation in the contract or obligation itself.

The following classes of United States money are a legal tender to the extent specified:

Gold coins for all debts public and private to any amount.

Standard silver dollars, for all debts public and private unless otherwise stipulated in the contract.

Subsidiary silver coins (coins less than one dollar), for all dues public or private in sums not exceeding ten dollars.

Minor coins (copper, bronze, or nickel), for any amount not exceeding twenty-five cents in one payment.

United States notes or "greenbacks," for all debts public and private, except duties on imports (payable to the government) and interest on the public debt (payable by the government).

Treasury notes of 1862 and of 1890 are also legal tender to the same extent as greenbacks, and those of 1890 are receivable for customs and other public dues.

Lessee. The one to whom a lease is given, or who takes possession of property by lease.

Lessor. The one who gives a lease, or who gives possession by lease.

Letter Book. (L. B.)

Letter of Credit. A letter issued to travelers by a bank, addressed to banks in foreign cities, directing payment of funds to the holder.

Liabilities. †Embrace all the debts or obligations due by a firm to its creditors, or

The debts or obligations of a corporation, partnership or individual. Prin. 15.

Liability Accounts. Current, Prin. 32; long term, Prin. 33; contingent, Prin. 34.

Liability Inventory Account. Prin. 32 F.

Lien. A preferred right in property allowed by law, which right arises from some service in connection with the property. A mechanic's lien is the right of a mechanic in the building he has helped construct, for charges or expenses pertaining to it.

Limited. A term appearing in the firm title indicating that the liability of stockholders is, by agreement, limited to a certain amount, usually the amount of their investment.

Liquid Assets. †Cash and such assets as can instantly be converted into cash.

Liquidation. The act of determining the persons and amounts owed, and of applying assets to settlement.

Liquidation Account. †An account opened when a concern is being wound up and to which are credited all the profits made in realizing the assets, and debited with the expenses of liquidation and any liabilities which may have to be paid, but which are not entered in the books.

List. Prin. 18; inventory lists, Prin. 18 B; Forms 4 F to 4 H.

Loan and Discount Register. Form 20 F.

Loan Account. †An account representing money invested in loans.

Loan Capital. †Loan capital is the capital borrowed upon issues of bonds, secured by mortgages, usually on real estate, which is to be paid at some future time.

Locating Errors. Prin. 83 C-D.

Long-Term Indebtedness. Prin. 33.

Loose-Leaf Ledger. Prin. 80 G.

Loss and Gain Account. The same as Profit and Loss account, and preferred by some for the reason that the words are placed correspondingly with the entries in the account.

The contrary order, Profit and Loss, is generally regarded by accountants as more logical, inasmuch as profit is the first consideration, loss being treated as a deduction therefrom. Compare with Sales less cost of sales, Income less expense, etc.

Losses. Prin .44.

Machine Hour. †A basis for the distribution of overhead. As a unit it consists of the work of one machine one hour.

Machine or Process Cost. †A method of charging manufacturing costs to the machine or process.

Machinery Account. Prin. 24 C.

Maintenance Account. †An account or series of accounts representing cost of repairs, renewals and replacements.

Maker of a Note. The one who signs it.

Manager. (Mgr.)

Man Hour. †A basis for the distribution of manufacturing overhead. As a unit it consists of the work of one man one hour.

Manufactured Goods Account. Prin. 23 I, 55 C.

Manufacturing Account. †An account subsidiary to Profit and Loss account for the purpose of showing the result of factory operations separately from the trading.

Manufacturing Business. The business of changing raw material into merchandise, or goods for sale.

Manufacturing Cost. The material, labor, and indirect expense cost of any article; i. e., all outlays necessary to manufacture an article.

Manufacturing Cost System. †A system subsidiary to but controlled by the general books whereby items of cost and expense are grouped around units of production and service which are identified by groups for cost purposes.

Manufacturing Profit. †The excess of sales over the prime cost of producing the goods sold. See Prin. 43; Form 6.

Manufacturing Supplies. †Miscellaneous supplies to be consumed in the process of manufacture which are either too small or too inexpensive to warrant being charged to stock.

Material. An account charged with the cost of materials purchased and held in stock for manufacturing purposes, and credited with the cost of such material as is delivered from stock to the factory and placed in process of manufacture. Often further subdivided into "raw" material and "partly finished" material. Prin. 23 I.

Material in Process. †Product in an uncompleted state, but differentiated from raw material.

Material Requisition. †A form used for registering the material taken out of stores.

An order for material to be placed in process.

Materials and Supplies Ledger. †A subsidiary ledger controlled by the materials and supplies account in the general ledger, showing, with regard to the receipts and issues of the various

kinds of materials and supplies, the date, number of units, cost per unit and money value.

Maturity. The date on which a debt is legally collectible.

Memorandum. (Mem.)

Memorandum Accounts. Prin. 58 A.

Mercantile Agency. An organization to gather financial information about business houses or individuals, and sell reports of information thus gathered to interested persons, as a basis for credit.

Merchandise. (Mdse.) Goods or commodities in salable condition.

Merchandise Account. Prin. 23 G-H.

Merchandise Inventory. A list of goods kept in stock for sale. The list should show quantity, cost and total value. Prin. 18 B.

Merchandise Purchase Account. †This account should be opened to show the entire charges for all merchandise purchased, and should be credited for all merchandise purchase returns. The balance would then represent the net amount of the purchases for the period, which amount should be carried to the trading account. See Prin. 55 and 55 B; Form 12 R, 14 H.

Merchandise Sales Account. An account for merchandise sales and adjustments of same. Prin. 55-55 A.

Merchandise Trading Account. Prin. 55; Form 12 S, 14 J.

Misrepresentation of Business. Prin. 85 E.

Minute Book. †A company minute book is for the purpose of containing the minutes of the meetings of the shareholders and of directors.

Mixed Accounts. Prin. 21.

Money. Money consists of (1) pieces of gold, silver, copper, etc., coined and issued by governmental authority; (2) paper, so issued, which may be legal tender instead of coin; (3) other paper, lawfully employed in payment of business obligations. See Legal Tender.

Mortgage. (Mtg.) A document of conditional transfer of the title to real or personal property, as security for the payment of a debt. The debtor is called the mortgagor; the creditor, the mortgagee. Form 16 B, 16 G.

Mortgage Loans. Prin. 25 C.

Municipal Bond. †Any legally authorized bond issued by village, township, city, or any territorial subdivision of the same, the payment of which must be accomplished through the collection of taxes, assessed upon the property embraced in the division or subdivision issuing the bond.

Negative Account. †An account which reduces the value of another account, e. g., returns is a negative to sales.

Negotiable Paper. A check, note, draft, or other paper transferable from one holder to another who may enforce payment without reference to equities existing between the first parties. See Prin. 88 E.

Net. Not subject to further deduction, as net price, net profit.

Net Capital. †The surplus of actual assets over actual liabilities .

Net Earnings. †The earnings from the operation of a business after deducting only the expenses incidental to the conduct thereof.

Net Income. †After all costs of operating and fixed charges of every kind have been deducted from the earnings of a corporation, the balance, which is the amount available for dividends, may be called "net income."

Net Investment. †The difference between the total sum invested and the total withdrawals.

Net Invoice. The sum of the invoice after discounts are deducted.

In the laboratory units of the A. B. S., one-half or major fraction of a cent belonging to a discount is considered an additional cent discount.

Net Profits. †The balance remaining after all expenses of distribution and establishment charges, discount, interest, etc., have been deducted from profits.

The balance of the Profit and Loss account when the same is a gain.

The surplus remaining over from the employment of capital after defraying all the necessary expenses and outlay incurred in its employment, and after the capital has been replaced or provision made for its replacement. See Prin. 43; Form 7 D, 8 E.

Net Trading Profit. Prin. 46.

Net Worth. The excess of assets over liabilities of a given person or concern. Prin. 17.

Nominal Accounts. †Accounts which represent income or expenditures. Accounts used for the purpose of classifying income and expenditure under such heads as rent, taxes, discounts, sales, purchases, etc., and form the material for the construction of the Profit and Loss account. See Prin. 51-60.

Nominal Capital. †The amount of capital for and in respect of which a company, having its capital divided into shares, is registered.

Nominal Ledger. †A ledger used for separately recording the transactions in connection with the various nominal accounts.

Notary Public. (N. P.) A state officer, generally appointed by the governor for a term of years, principally to take acknowledgment of instruments, to make demand for payment of commercial paper, and to protest for non-payment, and to administer oaths. See Acknowledgment.

Note. Form 15 I, 15 S.

Note Book. (N. B.) See Form 13 M and 17 Q.

Notes Payable. †All written agreements in every form which a person has entered into, and which are held by others, and which bind such a person to pay sums of money at some future time either on demand or a fixed date.

The account title, Notes Payable, is more frequently employed at the present time than the title "Bills Payable," which was formerly in universal use.

Notes Receivable Account. Prin. 23 E; Form 11 C.

Notes Receivable Discounted. Prin. 34.

Number. (No.), also (#), when placed before the figures.

One Page Cash Book. Form 10 A-10 B-11 A.

Operating Departments. Divisions of a manufacturing business, such as pattern rooms, foundry, machine shop, etc. Form 27 A.

Open Account. (1) The ledger account with a creditor or debtor in which the current charges and credits are entered. (2) Any account not periodically balanced.

Open Policy. A policy of insurance covering risks that are undetermined at the time of issue, but that may be entered on the policy later.

Order Book. Form 14 C.

Order of Accounts in a Ledger. Prin. 21.

Order Sheet. Form 14 B, 15 N.

Ordinary Interest Method. See Interest.

Organization. Different forces brought into corresponding relation to accomplish a given end. A business organization is the sum of its combined management and capital brought together to effect a business purpose.

Organization Expenses. Prin. 28 G.

Original Entries. Prin. 71-71 H.

Outlawed Claim. A claim against a debtor who may avoid it in law on account of the time it has remained uncollected. "Statutes of Limitation" prescribe the time within which suit may be begun. The time varies in different states.

Outstanding. Referring to liabilities unpaid.

Overhead Expense. Prin. 54 G. (See Burden.)

Packages. (pkg.)

Paid. (pd.)

Paid-Up Capital. The actual amount which has been paid up or is legally considered as paid up, in respect of the capital.

Pails. (pl.)

Pair. (pr.)

Par. Equality between nominal and commercial value. Stocks, bonds, drafts, etc., are above par when they sell at more than face, and below par, when at less than face.

Part. (pt.)

Partnership. An association of persons who unite property or services in business. Prin. 88 G.

Party. One of the participators in a transaction or exchange of values. An individual, partnership or corporation may be a "party" to a transaction.

Pass Book. A customer's book in which, on presentation, a trader or banker enters current charges or credits. Form 15 C.

Patent. A document issued by the government, securing to an inventor the exclusive right to manufacture and sell his invention for a given period of time (fourteen years in the United States).

Patent Rights Account. Prin. 28 A.

Pawn. To transfer possession of personal property as security for the re-payment of money, delivered to the owner by the pawnbroker.

Pawnbroker. A money lender whose loans are secured by the borrower pledging or "pawning" personal property as security, the pledge being on condition of forfeiture of ownership in the property if payment is not made according to the agreed terms.

Payee. The person named in commercial paper to receive payment.

Per Centum. (%)

Permanent Assets. †Comprise such investments as are necessary to conduct the business, and must be kept in a state of efficiency in order to carry on the business.

Person. This term is used in a business sense to include either an individual, firm, association, or corporation.

Personal Account. Of customer, Form 12 H, 13 I; of creditor, Form 12 G, 13 H.

Personal Property. Chattels, merchandise, commodities and material, as opposed to real property.

Personal Property. All movable property; horses, tools, furniture. "chattels" of all kinds (crops of annual planting, such as potatoes, are usually treated as "personal property," but would pass with the sale of the land if growing thereon), securities, etc., as distinguished from "real property."

Petty Cash Book. Form 13 O.

Petty Expense Book. (P. E. B.) Prin. 74 E; Form 13 O.

Petty Ledger. †A ledger in which sundry accounts or accounts with customers who are not expected to be regular purchasers are kept.

Pieces. (ps.)

Plain Bond. †A bond not secured by mortgage; practically the same thing as a "debenture bond" or a "certificate of indebtedness." It would not be supposed to have a "sinking fund."

Planning of Accounts. †Arranging the accounts in the general ledger in the order in which it is expected they will appear in the financial statements.

Plant. †A title used to designate permanent assets, such as buildings, machinery, etc., required for purposes of manufacture.

Posting. The process of transferring charges and credits from first entries to ledger accounts. Prin. 71 H.

Postponed Creditors. †Creditors who are disentitled to rank against an estate or property until all other creditors for valuable consideration in money or money's worth have been satisfied.

Pound. (lb.), also (#) when placed after the figures.

Power of Attorney. The power given by one person to another, authorizing the latter to make specified contracts in the name of the former.

Preferential Creditors. †Creditors whose debts are directed to be paid in priority to the claims of others in the administration of the estates of (a) A debtor in bankruptcy. (b) A deceased insolvent. (c) A company being wound up.

Preferred Stock. (Pref. Stock.) The stock of a corporation which is entitled to dividends before, or regardless of, the common stock.

Preliminary Expenses. †The expenditure in connection with the promotion, formation, establishment and registration of a company.

Premium. (1) The amount above par paid for commercial paper. (2) The amount paid for insurance.

President. (Pres.)

Primary Income. †That income which is derived from the principal business in which the organization is engaged. Prin. 43.

Primary Records. Forms, such as receipt stubs, invoice duplicates, and many others used to record transactions. Wildman.

Prime Cost. †The original or direct cost of an article as distinct from the "cost of production." The latter term includes all expenditures incurred in manufacture, whether direct or indirect.

Principal. (1) The person employing an agent. (2) The sum upon which interest is computed.

Principal Books. Books from which or to which accounts are posted, or in which accounts are entered.

Private Ledger †A ledger reserved for the use and inspection of the partners or other proprietors of a business, and usually containing particulars as to the capital in the business, the profit and loss account, and other private matters. (Note.—Successive balance sheets are almost invariably entered therein, in the form of a memorandum.)

Processes of Bookkeeping. Recapit., Prin. 1-10.

Producer. One who grows, buys, manufactures, or otherwise prepares a utility for sale. Farmers, manufacturers, merchants, bankers, and professional people are producers.

Production Equipment. †Equipment necessary to produce some manufacture or utility, especially with public service corporations for production of electricity, gas or power.

Production Order. †An order to the factory to produce a certain quantity of goods.

Profit. †Profit consists of the surplus remaining over from the employment of capital after defraying all the necessary expenses and outlay incurred in its employment, and after the capital has been replaced or provision made for its replacement. Prin. 41 B.

Profit and Loss Account. (P. & L.) Recapitulation, Prin. 51-60; Form 10 O, 12 V, 14 L.

Profit and Loss Statement. Prin. 41 to 50.

Profits and Losses, Miscellaneous. Prin. 59 D.

Promissory Note. Prin. 65; Form 15 S.

Proof of Fire Loss. Form 16 J.

Proof Sheet. Prin. 72 L; Form 12 I.

Property. Things that a person may own or dispose of, whether material or immaterial.

Property Accounts. Prin. 22-30; Form 11 E.

Proprietorship. †(1) The excess of assets over liabilities. (2) That portion of the assets of a business organization which is assigned to the proprietor as his equity.

Protest. A formal act of a notary public declaring certain paper dishonored by the payers, and holding the parties to the paper liable. Prin. 65; Form 16 L-N.

Proximo. (prox.) In the next following month.

Public Service Corporations. †Corporations existing to supply some service or utility indispensable to the general public, such as transportation, gas, light, water power, etc.

Purchase of Land. Prin. 88 D.

Purchases Account. Prin. 55-55 B.

Purchases Book (P. B.), **and Records.** Prin. 76 to 76 C.

Quick, or Current, Assets. †Anything that can be readily converted into cash without the necessity of taking a prohibitive loss. See Prin. 13.

Quick Assets. †Anything that can be readily converted into cash without the necessity of taking a prohibitive loss. See Prin. 25.

Quotations. The published price of merchandise or commodities, freight or exchange rates, etc.

Railway. (Ry.)

Rating. The report of a commercial agency on the financial standing and credit of a person or concern.

Reading Amounts. Prin. 71 I.

Real Estate Account. Prin. 24 A; Form 11 E.

Real Account. †Represents the values of actual assets, or the amount of actual liabilities, such as real estate, machinery, loans and mortgages. See Prin. 21; Form 11 B, 11 E.

Real Estate. Property in houses, lands, and attachments legally pertaining thereto.

Real Estate Account. Prin. 24 A; Form 11 E.

Real Property. †Land and buildings, including everything, such as minerals, etc., below the surface, and the air or space above; also all crops, as grass, trees, etc., which are not considered as of annual planting.

Rebate. A deduction from an amount assumed to be due.

Recapitulation Statement. A statement presenting titles and totals of other statements without the details contained in he latter.

Receipt. (Rect.) A written acknowledgment of money or value received from another. Form 15 R.

Receiver. One appointed by a court to hold in trust, or manage, disputed or unsettled property or claims.

Reconciliation of Bank Statement. Prin. 84 B.

Redemption Fund. †A sinking fund established for the payment of redeemable debentures, funded debt, or other obligation. An amount set aside at regular intervals from profits which will be sufficient to discharge an obligation at maturity. A reserve fund.

A fund accumulated to redeem outstanding obligations at the end of a certain time.

Refund. A repayment, as when a merchant returns money to a customer whom he has overcharged.

Relation of Statement of Condition to Books. Prin. 19.

Relation of Statement of P. & L. to Books. Prin. 49.

Remittance Register. Form 20 G.

Rent. Money or goods transferable from tenant to landlord in payment for use of property.

Repair and Renewal Account. A repair and renewal account is an account kept to show the amount of expenditures made from time to time for repairing and renewing plants and machinery to keep them in a state of working capacity, and the balance at the end of the period is closed into the profit and loss account.

Reserve Fund. An amount deducted from profits and re-

tained in the business to provide an offset against real or contemplated losses. This amount retained is an asset, although it may be represented by no distinctive asset account, but may remain undistinguished among the other assets of the business. It may be actually withdrawn from the other assets and placed in a separate bank account, in which case a corresponding asset account would be opened in the ledger.

Whether left undistinguished among other assets, or actually set apart, the amount of the fund is credited in the ledger to a Reserve account which balances the fund in like manner as the Capital account balances the net sum of the other assets.

Reserve Accounts. Prin. 35; for depreciation, Prin. 24, 35 A; for doubtful accounts, Prin. 35 B.

Resources. Prin. 13.

Returned Purchases Account. An account subsidiary to Trading, in which goods returned to the persons from whom purchased, are credited.

Returned Sales Account. An account subsidiary to Trading, in which goods received back from customers, are debited.

Revenue Account. †A term sometimes used to designate Profit and Loss account. "Revenue accounts" are the accounts that relate to profits and losses, income and expenditures, as distinguished from capital accounts which relate to assets and liabilities.—Am. Enc.

Route. (1) The railroad or carrier to which shipments are intrusted. (2) To route a shipment is to designate carriers and the points where interline shipments are transferred from one carrier to another. (3) To route a job through a factory is to itemize, in their order, the various materials and operations from start to finish.

Rule for Debit and Credit. Prin. 72-72 H.

Ruling. Prin. 71 H.

Sale Contract. Prin. 66; Form 16 D.

Sale of Goods. Prin. 88 B.

Sales Account. Prin. 55 A.

Sales Book (S. B.) **and Sales Records.** Prin. 75-78.

Sales Discount Account. An account charged for the cash discounts allowed on invoices sold.

Sales Ledger. †The sales ledger contains accounts with the concern's debtors.

Sales Records. Prin. 75 to 75 E.

Savings Fund Account. Form 10 C.

Scale Ticket. Form 14 A.

Schedule. Prin. 18; Forms 4 F, 4 G, 4 H.

Seal. The impression or mark on a document made by the signer, additional to his signature, as evidence of his deliberate authorization of its terms.

Among the Saxons and other early people, who generally could not write, legal instruments required a seal instead of signature. The requirement of a seal on certain instruments became a matter of law, and so continued. The word "seal" or "L. S." inclosed in a circle, or in brackets, is frequently used on documents, and constitutes a seal.

Secondary Income. †That income which is derived from operations not comprehended by the principal business in which the organization is engaged. Prin. 43 and 59.

Secret Reserve. Prin. 84.

Securities. †All forms of investments; stocks, bonds, mortgages, etc., of every kind; the written or printed papers that represent the ownership of corporations, or the lender's evidence of the borrower's indebtedness.

Selling Expense. Prin. 43 A.

Service Business. A business that sells principally services rather than commodities; as a dray line, railroad, hotel, light, heat and power company, etc.

Shares of Stock. Prin. 39 B; Form 15 W.

Shipment. (Shipt.) The goods shipped.

Shop Account. A controlling account in the general ledger to show the aggregate of material, labor, and expenses chargeable to the product of the shop.

Shop Cost. †Cost of manufactured article up to point of leaving the shop. (This is not to be confused with "factory expense," "overhead" or "factory burden.")

Short Extend. To enter or carry an amount short of, or before, the money column.

Shrinkage. Prin. 58 A.

Sight Draft. (S. D.)

Signature. Prin. 62; Form 15 A.

Silent Partner. A business partner who is not actively engaged in the business, but whose investment entitles him to share in profits.

Sinking Fund. Money set apart, in savings or investment, to meet a future maturing debt. Prin. 25 A.

Single Entry. A system of bookkeeping wherein entries of transactions do not require equal charges and credits for every exchange. Prin. 70; Forms 17 A-L.

Single Entry Changed to Double Entry. Prin. 89 F; Form 17 M.

Sole Proprietorship. †A business organization in which the proprietorship is vested in an individual.

Solvency. Ability to meet obligations. A business is solvent when it has assets sufficient to meet its liabilities.

Space for Ledger Accounts. Prin. 80 I.

Special Books. Prin. 78.

Special Column Cash Book. Prin. 74 H; Forms 18 C, 24 F, 25 B.

Special Journal. Prin. 73 E; Forms 17 M. 22 D. 23 I.

Speculation. Purchase of land, goods or securities, with a view to selling them at a rise in market price, as distinguished from trading, wherein goods are bought to supply regular retail or wholesale demands.

Speculative Accounts. Prin. 27.

Standard Account System. Prin. 5.

Statement. (1) A written exhibit of the condition or statistics of a business organization. Prin. 10. (2) A written exhibit of the doings of an agent. (3) A written exhibit of the current dealings between persons.

Statement of sales, Form 15 Q; of account Form 15 P; of depositor, Form 15 G; of financial condition, Forms 1, 2, 3, 4, 5, 12 M; of profit and loss, Forms 6, 7, 7 D, 8, 9, 12 N; trading, Form 13 J; departmental, Forms 18 M, 18 N, 18 O.

Statement of Account. †A written or typewritten memorandum, showing the balance due from debtor with items making up same. Customarily mailed monthly to debtors.

Statement of Affairs. †A statement of affairs is an exhibit of the assets and the liabilities of an insolvent debtor, so arranged as to show on one side all the assets of the concern with the amounts they are expected to realize extended to another column, and on the other side all the concern's gross liabilities with the amount expected to rank carried into a separate column.

Statement of Assets and Liabilities. Prin. 12.

Statement of Balances. A trial balance of ledger accounts which is proved to be correct.

Statement of Income and Profit and Loss. †A statement which sets forth the financial operations of a business organization, for a given period, comprehensively grouped about the divisions of organization and connecting the financial condition of the organization at the end of the period with that at the end of the next preceding period. Prin. 41-42.

Statement of Realization and Liquidation. †A financial statement which shows in parallel columns, respectively, concerning the assets and liabilities arranged in report form, the amount per the books; the amounts unrealized; the amounts to be accounted for; the loss and gain incident to realization and liquidation; the assets realized; the liabilities liquidated; the cash resulting and to be turned over.

Statement of Receipts and Disbursements. †A statement arranged in report form showing respectively with regard to cash, the balance at the beginning of a period, the classified receipts and disbursements during the period and the balance remaining at the end of the period.

Statement of Receipts and Payments. †A statement of receipts and payments is a summarized cash account and states the amounts of money actually received and disbursed during the period to which it relates without regard to whether the same are earnings or expenses exclusively appertaining to that period or include items so appertaining to the period preceding. It starts with the cash balance at the commencement of the period which it covers, and concludes with the cash balance at the close thereof.

Statistical Account. †An account kept for the purpose of exhibiting certain statistical results pertaining to the financial transactions of an organization, but not necessarily a part of the regular classification of accounts.

Statutes of Limitation (Revised to 1918). Accounts, notes, contracts, and domestic judgments become outlawed by statute in the several states at expiration of the time shown in the following table:

State	Open Accounts	Unsealed Notes	Unsealed Contracts	Sealed Contracts	Judgments Courts not of Record	Judgments Courts of Record
Ala.	3 yrs.	6 yrs.	6 yrs.	10 yrs.	6 yrs.	20 yrs.
Ariz.	3 "	4 "	4 "	4 "	5 "	5 "
Ark.	3 "	5 "	3 "	5 "	10 "	10 "
Calif.	4 "	2 "	2 "	5 "	5 "	5 "
Colo.	6 "	6 "	6 "	6 "	6 "	20 "
Conn.	6 "	6 "	16 "	17 "	No limit	No limit
Del.	3 "	6 "	3 "	20 "	5 yrs.	10 yrs.
D. C.	3 "	3 "	3 "	12 "	12 "	12 "
Fla.	3 "	5 "	5 "	20 "	——	20 "
Ga.	4 "	6 "	6 "	20 "	——	7 "
Idaho	4 "	5 "	5 "	5 "	6 yrs.	6 yrs.
Ill.	5 "	10 "	5 "	10 "	10 "	20 "
Ind.	6 "	10 "	6 "	10 "	——	20 "
Iowa	5 "	10 "	5 "	10 "	10 yrs.	20 "
Kans.	3 "	5 "	3 "	5 "		
Ky.	5 "	15 "	5 "	15 "	15 "	15 "
La.	3 "	5 "	5 "	10 "	10 "	10 "
Maine	6 "	6 "	6 "	20 "	6 "	20 "
Md.	3 "	3 "	3 "	12 "	12 "	12 "
Mass.	6 "	6 "	6 "	20 "	20 "	20 "
Mich.	6 "	6 "	6 "	10 "	6 "	10 "
Minn.	6 "	6 "	6 "	6 "	10 "	10 "
Miss.	3 "	6 "	6 "	6 "	7 "	7 "
Mo.	5 "	10 "	5 "	10 "	10 "	10 "
Mont.	5 "	8 "	8 "	8 "	5 "	10 "
Nebr.	4 "	5 "	5 "	5 "		
Nev.	4 "	6 "	4 "	6 "	——	6 "
N. H.	6 "	6 "	6 "	20 "	——	20 "
N. J.	6 "	6 "	6 "	16 "	——	20 "
N. Mex.	4 "	6 "	4 "	6 "		
N. Y.	6 "	6 "	6 "	20 "	6 "	20 "
N. Car.	3 "	3 "	3 "	10 "	7 "	10 "
N. Dak.	6 "	6 "	6 "	10 "	10 "	10 "
Ohio	6 "	15 "	6 "	15 "		
Okla.	3 "	5 "	3 "	5 "		
Ore.	6 "	6 "	6 "	10 "	——	10 "
Penn.	6 "	6 "	6 "	20 "	——	20 "
R. I.	6 "	6 "	6 "	20 "	20 "	20 "
S. Car.	6 "	6 "	6 "	20 "	20 "	20 "
S. Dak.	6 "	6 "	6 "	20 "	20 "	20 "
Tenn.	6 "	6 "	6 "	6 "	10 "	10 "
Tex.	2 "	4 "	4 "	4 "	10 "	10 "
Utah	4 "	6 "	6 "	6 "	8 "	8 "
Vermont	6 "	6 "	6 "	8–15 "	6 "	8 "
Va.	3 "	5 "	5 "	10 "	10 "	10 "
Wash.	3 "	6 "	7 "	6 "	6 "	6 "
W. Va.	5 "	10 "	10 "	10 "	10 "	10 "
Wis.	6 "	6 "	6 "	10 "	6 "	20 "
Wyo.	8 "	5 "	8 "	5 "	5 "	5 "

Stock Dividend. Profits of a business which have been added to the capital, and distributed to stockholders in the form of additional shares of stock, instead of in cash.

Stock Exchange. An association for the purchase and sale of stocks and other securities.

Stockholder. One who owns shares of the capital stock of a corporation or stock company.

Stockholder's Ledger. A subsidiary or memorandum ledger having the stock accounts of all stockholders. The total credits of this book equal the paid up capital stock outstanding.

Stocks. The shares in the capital of a stock company or corporation.

Stocks Account. Prin. 25 E; Form 11 D.

Stock-Taking. †Stock-taking is an examination of goods on hand for the purpose of finding their value and incorporating the same into a concern's accounts.

Storage. A charge made for keeping goods in a warehouse.

Stub. The memorandum portion of a check, receipt, note, draft or other paper which remains after the paper is detached and delivered. Form 15 D, 15 R, and 15 S.

Subscriber. One who signs his name to an agreement. The subscriber to capital stock of a corporation agrees in writing to invest a given amount toward the capital of the company.

Subsidiary Ledger. Prin. 80 C.

Subsidy. A grant or bonus by government or a municipality to a person to assist him in the establishment of an enterprise deemed advantageous to the public.

Summary Account. †An account into which a number of detail accounts are closed for the purpose of showing a general result.

Sundry. (Sund.) More than one or two. Various. Very frequently used in bookkeeping referring to a number of accounts later enumerated as "Sundry Accounts;" also referring to a number of items not necessary to enumerate as "Sundry Expenses." Used as a heading for miscellaneous items, as a "Sundry Column."

Superintendent. (Supt.)

Surplus Account. Prin. 36.

Suspended Ledger. A ledger containing accounts separated from the ordinary accounts receivable ledger, because they are considered doubtful of collection. The total of the suspended ledger accounts may be written off entirely, and carried merely as a memoranda record of accounts worth keeping in mind, but not worth carrying at any amount.

Suspense Account. An account in which items, whose final disposition is doubtful, may be charged or credited while awaiting final disposition.

Syndicate. †A group of men, bankers, or any combination of the same, who combine in their mutual interests for the purchase or control of certain properties or securities. The members of the syndicate are generally bound by what is called "syndicate agreement;" in other words, a written instrument to carry out the terms of the agreement, signed by the parties.

Tangible Values. †The direct and indirect cost of physical property, as cost of purchase of equipment, labor and material used to install, with all legal, office, rent and other expenses incurred incidental and necessary to installing.

Tare. A deduction of the weight of containers from the gross weight.

Taxable Income. Prin. 88 K.

Taxes. Contributions enforced by law upon individuals for the support of government. A tax is a lien on real and personal property. It is designed to meet the budget of expenses annually made for the support of the state, county, township, city, school district, etc. In the case of taxes levied on property, each taxpayer pays in proportion to the assessed value of the property owned by him. Licenses, poll taxes, impost duties, etc., are other forms of taxation.

Taxes Account. Prin. 28 F.

Telegram. Form 18 L.

Teller. (Tel.) A bank clerk who counts money paid to or received from customers.

Tender. The offer of payment or satisfaction of a demand, usually the offer of legal money, called a legal tender, for the payment of a debt.

Terms of Sale. The conditions governing the settlement for property sold. The term "2/10, n/30" means subject to two per cent discount if paid in 10 days, but net or without discount if not paid before 30 days.

Tickler. A book arranged to show future due paper or other important data in the order of the dates when attention should be given to them.

Title. The heading of an account. "Expense" is the title of Form 10 J; "Charles Burton, Capital," of Form 10 H, etc.

Ton or Tons. (T.)

Tools Account. Prin. 24 D.

Trade Discount. A discount from list prices or invoice prices, made by wholesalers to dealers.

The trade discount is often regarded as the dealer's trading profit, especially on articles that are universally retailed at list prices. Trade discount should be distinguished from "cash discount."

Trade Mark. A device placed upon manufactured goods to distinguish them from imitations. Trade marks are copyrighted to insure their exclusive use by the owner.

Trading Account. A summary account in which the gross trading or manufacturing profit of a given accounting period is shown by the introduction of such subsidiary accounts as Sales, Purchases, Manufactures, Inventory, Freight, Discounts, Returns, Allowances and any other elements that affect profit from sales prior to the deduction of selling, general administrative and capital expense. Prin. 55-55 D; Forms 12 S and 14 J.

Trading Business. The business of buying and selling commodities. A mercantile business.

Trading Statement. See "Statement; Form 12 N, 13 J.

Transactions. Prin. 5 and 7.

Transfer Binders. Prin. 80 G.

Transit. Checks or drafts are said to be "in transit" when they are held by parties between drawer and drawee.

Treasurer. (Treas.)

Treasury Stock. The stock of a corporation which is received, bought or donated back after having once been issued. Such stock is carried in a special account, entitled "Treasury Stock." Prin. 39 D.

Trial Balance. †Suggested definition: A trial balance is a table of the balances shown on a ledger for the purpose of trying their accuracy. When successfully compiled it ceases to be a trial balance and becomes a statement of ledger balances. See Prin. 80 M; Form 10 G, 10 P, 12 J, 12 K, 12 Z.

Trial Balance, locating errors in. Prin. 83 D.

Trust Company. A financial institution that takes charge of the financial investments of persons or estates, and carries on a banking business in greater or less degree, depending on state laws.

Trustees. †Trustees are persons having charge of property of some other person, usually appointed by a court and bound by the terms of the trust over which they have been appointed.

Turnover. †A term used to designate the cost of goods sold. (Illustration shows material and labor.) Am. Enc.

The cost of goods sold during a certain period. (Illustration shows net purchases only.) Renn.

Prime cost of the goods sold. Rahill.

Two-Page Cash Book. Prin. 74 C; Form 13 B, 13 L, 17 P, 18 G,

Ultimo. (ult.) In the month just preceding the present month.

Undistributed Expense. †Expenses chargeable to operation, but under captions not determined.

Undivided Profits. †Earnings or profits which have not been divided among the partners in a firm or the stockholders in a corporation.

Unsubscribed Stock Account. The account charged for the portion of the capital stock account of a corporation which has not been apportioned to any subscriber or stockholder.

Up-Keep. A term used in real estate accounts to show expenses of keeping buildings in condition for renting; also applied to expenses of keeping other property in condition for use.

Utility. A thing that may be sold, as, commodities, services, uses, or conditions of time or place that may be given for a price. The utility sold by a grocer is in the form of groceries; that of a railroad, transportation; that of an electric light company, light or power; that of a teacher, instruction; that of a lawyer, advice or service.

Valuation of Assets. Prin. 14.

Vendors. †Persons from whom purchases are made—usually, the persons from whom a corporation takes over its original assets.

Venture Account. †Venture account, or, as it is sometimes termed, "adventure account," is a title frequently applied to specific shipments on consignment when made the subject of separate accounts.

Verifying the Posting. Prin. 80 K.

Voucher. †A document which certifies or verifies the correctness of charges for values paid out or parted with, or of credits for values received. Am. Enc.

Vouching consists of obtaining evidence (usually documentary) that the transactions recorded in the books are facts. Montgomery-Dicksee.

Any memorandum which will establish the validity of the transaction should be accepted as satisfactory. Renn.

Prin. 61.

Vouchers Payable. Prin. 31 D.

Voucher System. †The voucher system is the treatment of creditors' accounts in such a way as to obviate the necessity of keeping the individual accounts, thus greatly curtailing the labor of posting and yet at the same time greatly facilitating the analysis of expenditures under their classified headings. See Prin. 76 D.

Wage Hour. †A basis for the distribution of labor. As a unit it constitutes the wage of one operative one hour.

Wages. †(1) Compensation allowed for manual labor. (2) That share of production which is assigned to labor.

Waiting Assets. Prin. 26.

Watered Stock. †Stock which appears on the books as fully paid up, but for which only partial or no value has been received, and which, therefore, represents some inflated or fictitious value. Am. Enc.

Capital stock issued for which no value has been received. Tipson.

An increase of the capital stock of a corporation without a corresponding increase in the assets of the company. Stock acquired for less than an equivalent exchange of value. Rahill.

Stock issued above the authorized capital. Keister.

If all the original capital stock has been issued and the company should issue stock to pay dividends, it would be "watering." Keister.

Way Bill. A form accompanying freight shipments to show the routing and disposition. Form 24 A.

Wholesale. Sale in quantity suitable for division by retailers.

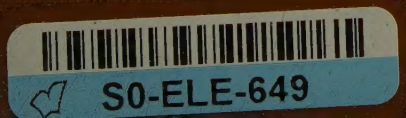
Working Account. †An account sometimes found in financial reports of cotton mills in which the manufacturing, trading and profit and loss accounts are combined.

Working Capital. †That portion of capital used in the active operations of a business. It may consist of (1) capital stock subscribed and paid; (2) capital stock sold to stockholders to raise cash; (3) dividends or surplus undistributed; (4) part of purchase money of business allowed to remain unpaid; (5) loans from bank or otherwise; (6) proceeds of accommodation notes; (7) proceeds of sale of bonds; (8) assessment on stockholders. Am. Enc.

All assets available as cash for the carrying on of a business. Tipson.

Works Ledger. †The subsidiary book in which is recorded in detail the cost of producing or manufacturing goods for sale.

Yards. (yd.)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